

UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

In Re : : 08-11153 (MG)
LEXINGTON PRECISION CORPORATION, : One Bowling Green
Debtor. : New York, New York
: October 28, 2008

TRANSCRIPT OF MOTION TO EXTEND EXCLUSIVITY
APPLICATION FOR FEES OF WEIL, GOTSHAL & MANGES LLP
APPLICATION FOR FEES OF ANDREWS KURTH, LLP
APPLICATION FOR FEES OF W.Y. CAMPBELL & COMPANY
APPLICATION FOR FEES OF STOUT RISIUS ROSS, INC.
BEFORE THE HONORABLE MARTIN GLENN
UNITED STATES BANKRUPTCY JUDGE

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UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

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1 (Proceedings begin at 10:08 a.m.)

2 THE COURT: Let me just check. Am I correct that not
3 all counsel are here on IFL? Okay. They'll have to wait.

4 All right. Lexington Precision, No. 08-11153.

5 MR. STROCHAK: Good morning, Your Honor. Adam
6 Strochak and Conray Tseng, Weil, Gotshal & Manges, for the
7 debtors.

8 THE COURT: Mr. Strochak, I want to take the
9 exclusivity motion first.

10 MR. STROCHAK: Fine, Your Honor. Happy to do that.
11 Shall we start with the evidence?

12 THE COURT: Yes, please.

13 MR. STROCHAK: All right. Your Honor, we would call
14 Dennis Wilhouse, the debtors' CFO.

15 THE COURT: Okay.

16 You have to come up to the witness box. And the
17 Reporter will swear you. If you'd just stand and raise your
18 right hand.

19 [DENNIS WILHOUSE, THE DEBTORS' WITNESS, WAS SWORN.]

20 MR. STROCHAK: Your Honor, I have a set of exhibits
21 for the bench. May I approach?

22 THE COURT: Yes, please.

23 MR. STROCHAK: Thank you.

24 THE COURT: And with respect to approaching the
25 witness, you don't need to ask permission.

Wilhouse - Direct

6

1 MR. STROCHAK: Thank you, Judge.

2 DIRECT EXAMINATION

3 BY MR. STROCHAK:

4 Q. Mr. Wilhouse, would you just tell me what your employment
5 is, sir?

6 A. I'm Senior Vice-President and Chief Financial Officer of
7 Lexington Precision Corporation.

8 Q. And how long have you held that position?

9 A. Since approximately 1990.

10 Q. Sir, I'd like to start with a couple of questions about
11 the debtors' cash position. Could you tell the Court what is,
12 as of as close to today as you come, the debtors' current cash
13 position.

14 A. As of the close of business on Friday, October 24th, the
15 company had approximately \$5.99 million of cash on hand.

16 Q. Mr. Wilhouse, is that amount of cash sufficient to fund
17 the debtors' operating needs for cash?

18 A. Yes.

19 Q. Do you foresee the debtors having adequate cash through
20 February of 2009 based on your projections and the current
21 level?

22 A. I do.

23 THE COURT: Mr. Wilhouse, is Lexington drawn down on
24 its debt facility?

25 THE WITNESS: No, sir, it has not.

Wilhouse - Direct

7

1 THE COURT: Okay.

2 BY MR. STROCHAK:

3 Q. Mr. Wilhouse, is the company burning cash, that is is it
4 using more than it's generating from operations?

5 A. The company is cash flow positive from operations. We are
6 consuming cash in the Chapter 11 process.

7 Q. Could you elaborate on that? What do you mean by
8 consuming cash in the Chapter 11 process?

9 A. I'll just give some numbers. For the first eight months
10 of the year the company's cash flow from operating activities
11 is approximately \$3.4 million and the reorganization expenses
12 that we've recorded on the books total \$3.8 million.

13 Q. Is there any other items that are draining cash from the
14 debtors?

15 A. Just one correction. The cash flow from operations is
16 \$1.7 million, and if we add back to that the paid
17 reorganization expenses, the cash flow from true operating
18 activities would be \$3.4 million.

19 Q. On a monthly basis, you know, from year beginning January
20 1 through today, can you give an estimation of the average
21 monthly cash burn in connection with those reorganization
22 expenses and anything else?

23 A. Well, I guess the way I would look at that is the cash
24 flow from operating activities is \$3.4 million before
25 reorganization expense. The reorganization expense for the

Wilhouse - Direct

8

1 eight months ended August 31st is \$3.8 million. In addition,
2 the other non-operating cash requirements we would have would
3 be principal payments to Capital Source, which over an eight-
4 month period would total about 1.9 million, and interest, cash
5 interest payments to Capital Source and the DIP holders, which
6 would be approximately another \$1.9 million.

7 Q. Capital Source is the debtors' pre-petition secured
8 lender; is --

9 A. Yes.

10 Q. -- that correct?

11 A. Yes. So what that would all work out to generally,
12 because there are considerable ups and downs in the cash flow
13 statement as receivables go up or down or inventories go up or
14 down or cap ex is more or less than you might anticipate, that
15 works out to a use of cash of roughly 500,000 a month after all
16 requirements.

17 Q. Thank you. Mr. Wilhouse, I'm going to approach and hand
18 you what we've marked as Debtors Exhibit 1 for the hearing. It
19 is, just for the purposes of the record, it is the same
20 document that was Exhibit A to the reply papers we filed last
21 week.

22 [Pause in proceedings.]

23 Q. Mr. Wilhouse, would you describe for the Court what
24 Exhibit 1 is?

25 A. Exhibit 1 is a summary of the operating activities of

Wilhouse - Direct

9

1 Lexington Precision Corporation for the three months ended
2 August 31st, 2008.

3 Q. And could you describe, sir, in general terms, the
4 financial performance for each of the debtors' business
5 segments, and let's start with the insulator's business. How
6 has the insulator's business been performing?

7 A. The insulator business has basically been performing right
8 to forecast. I would -- I would guess like to answer your
9 question by addressing, if I may, the shortfall in EBIDA, which
10 on the schedule shows as \$544,000. So if I could ask everyone
11 to focus to the center of the page, you can see that the
12 shortfall in EBIDA really is being -- is a result of shortfall
13 at our Lexington connectors seals location and our metals
14 location, which is Lexington Machining in Rochester, New York.
15 Both of those businesses are essentially OEM automotive
16 component manufacturers. And the shortfall in EBIDA there is a
17 direct result of the rather unexpected steep slide in the sale
18 of new cars and trucks in the U.S. and Europe. The rest of the
19 business, the insulators business and the medical business --
20 now, the insulator business, I would like to add, is
21 essentially after market automotive components. And the
22 medical components business, the parts we manufacture for
23 medical device manufactures, the forecast for those facilities
24 is essentially right on target from the EBIDA standpoint and a
25 net sales standpoint.

Wilhouse - Direct

10

1 A. And, pardon me, I'm not sure I remember if you said this
2 or not, but what segment does the connector seals business
3 serve, what market does it serve?

4 THE COURT: Mr. Strochak, could you put that exhibit
5 up on the projector?

6 MR. STROCHAK: Sure, Your Honor, I'd be happy to.

7 [Pause in proceedings.]

8 THE COURT: The 544 is in the last column; is that
9 correct, under --

10 THE WITNESS: Yes, sir.

11 THE COURT: -- increase or decrease the forecast?

12 THE WITNESS: Yes, sir.

13 THE COURT: What you're saying is it's 544,000 below
14 forecast --

15 THE WITNESS: Yes.

16 THE COURT: -- on the total company basis?

17 THE WITNESS: Yes.

18 THE COURT: Okay.

19 THE WITNESS: Yeah, and you can see, just if you move
20 up a few lines, you can see the shortfall at connector seals of
21 450.

22 THE COURT: Yes.

23 THE WITNESS: And the shortfall at our machining,
24 which is called metals, Lexington Machining, you see the
25 shortfall at 198 there.

Wilhouse - Direct

11

1 THE COURT: So the only segment performing above
2 projections is the insulators and medical components?

3 THE WITNESS: Yeah. Actually, the OEM component of
4 our business is maybe a third of our business and I would say
5 roughly maybe 20 or 25 percent of our EBIDA. But the insulator
6 business, which is automotive after market, and the medical
7 components businesses are basically right on.

8 THE COURT: Okay, thank you.

9 Go ahead, Mr. Strochak.

10 BY MR. STROCHAK:

11 Q. Let me turn, if I could, Mr. Wilhouse, to the process by
12 which the debtors prepared projections. Could you just
13 describe in general terms for the Court the process by which
14 the debtors prepared financial projections.

15 A. I can. In basically June and July we began to prepare
16 forecasts for all of the facilities. It started with sort of a
17 grounds-up approach, customer by customer, part by part. The
18 forecasts were based on either CSM data or conversations with
19 customers in terms of their specific requirements. So
20 basically we prepared sales projections based on that data for
21 the five years ended December 31st, 2012. From that point the
22 controllers at all the locations took the sales data and went
23 through a process where they, you know, converted it to
24 financial statements, balance sheets and cash flow statements.
25 That information was all consolidated in our Cleveland office.

Wilhouse - Direct

12

1 Q. And when you say consolidated, was it consolidated into a
2 package of information?

3 A. Yeah, it was consolidated into a package of information.

4 Q. And was that the package that was done in July of this
5 year --

6 A. Yes.

7 Q. -- finalized in July of this year?

8 A. Yes.

9 Q. Have there been -- have you participated in any
10 discussions with representatives of the creditors committee and
11 their financial advisers regarding the debtors' projections?

12 A. I haven't participated directly in discussions with the
13 creditors committee except for yesterday. But I have
14 participated in discussions with their financial advisors, and
15 throughout that process it's fair to say their financial
16 advisors did find several sales items and so forth in the
17 budget that were incorrect. So we basically just decided to
18 take it upon ourselves to make those corrections, and we're
19 currently working on a revised forecast. In the revised
20 forecast some of the corrections --

21 THE COURT: What do you mean they were incorrect?

22 THE WITNESS: There were simply mistakes made, Your
23 Honor. So basically what we're doing now is we're in the
24 process of preparing another forecast which will be completed
25 by the end of this week. We're making adjustments for things

Wilhouse - Direct

13

1 cited by the folks from SRR, and we're also making adjustments
2 the other way, as things have changed amongst customers. So
3 there's some adjustments that take the sales number down,
4 there's some adjustments that take the sales numbers up. And I
5 can tell you at this point in time, based on the numbers I
6 have, the numbers in the medical products division are pretty
7 much the same as they were in the first forecast, the numbers
8 in the after market business at Lexington insulators are pretty
9 much the same, but the numbers will be down at the OEM
10 facilities, connector seals and Lexington Machine.

11 THE COURT: Are you using the same August 31 date or
12 are you rolling it forward to the end of September?

13 THE WITNESS: Basically we'll use actual through
14 September and then do a re-forecast out through the end of
15 2012.

16 THE COURT: Okay.

17 Mr. Strochak, before you continue, are you going to
18 offer the exhibits as a group or are you going to do them one
19 by one, and have you discussed with the Committee's counsel
20 objections, are there objections to exhibits?

21 MR. STROCHAK: We did confer as directed by your
22 Court's, the Court's order. I don't believe there are any
23 objections to the exhibits. I'm happy to just offer them all
24 as a group if there's no objection.

25 MR. BRACHT: We have no objections to their exhibits,

Wilhouse - Direct

14

1 Your Honor. Gerry Bracht.

2 THE COURT: Okay. So what we can do, since there are
3 no objections, what's the full range of exhibit numbers that
4 you're going to be offering? We can deal with it now and I
5 don't have to think about it again.

6 MR. STROCHAK: It will be Debtors Exhibits 1 through
7 16, Your Honor.

8 THE COURT: All right. Debtors Exhibits 1 through 16
9 are admitted into evidence.

10 (Debtor Exhibits 1 through 16, Received.)

11 MR. STROCHAK: Thank you, Judge. Just one point of
12 clarification that I think will save us some time as we go on.
13 One exhibit that we've put in evidence is Debtors Exhibit No.
14 3, which is the draft valuation report prepared by the debtors'
15 financial advisors --

16 THE COURT: Yes.

17 MR. STROCHAK: -- W. Y. Campbell. Just point of
18 clarification, we're not offering that as evidence of valuation
19 in this proceeding. It's not offered as expert testimony.
20 It's offered simply to establish that the report was prepared.
21 You know, [indiscernible] that it was delivered to the
22 creditors committee, and we don't intend to turn this into a
23 evaluation hearing.

24 THE COURT: All right. Go ahead, Mr. Strochak.

25 BY MR. STROCHAK:

Wilhouse - Direct

15

1 Q. Mr. Wilhouse, I'm going to give you Debtors Exhibit 2 in
2 evidence.

3 [Pause in proceedings.]

4 MR. STROCHAK: Your Honor, just a point of
5 clarification. Exhibit 2 addresses the question Your Honor
6 raised in the order last week, which we also --

7 THE COURT: Yeah, I read your reply.

8 MR. STROCHAK: -- elaborated on.

9 THE COURT: Yeah.

10 MR. STROCHAK: I'm happy to cover this as a matter of
11 evidence if the Court would like, but if the Court's satisfied
12 --

13 THE COURT: I read the reply. We'll see whether
14 there's cross-examination about it. I'm -- I was -- I don't
15 have questions now at this point, so you don't need to cover it
16 unless you --

17 MR. STROCHAK: Very well. Thank you. All right.
18 Your Honor, that's my final question. We'll pass the witness.

19 THE COURT: Okay.

20 MR. BRACHT: Your Honor --

21 THE COURT: Before you do that.

22 Now that I've admitted all these exhibits, I mean the
23 one thing I don't usually do is just let people dump exhibits
24 in, which is what I feel like sort of happened. I thought you
25 actually were going to use these exhibits. Could you elaborate

Wilhouse - Direct

16

1 on what you're doing?

2 MR. STROCHAK: Sure, I'd be happy to, Your Honor.

3 THE COURT: I mean I'm not looking -- because I do
4 review the evidence and I'm not looking forward to reading all
5 of your exhibits if they're not linked to the testimony. Nor
6 do I want to prolong the examination unnecessarily, so if you
7 would just enlighten me.

8 MR. STROCHAK: Sure, Your Honor. There are certain
9 items on the exhibit list, exhibit -- items 12 through 16 are
10 the debtors' monthly operating reports. They're submitted
11 essentially as background information. I think the data in
12 those reports ties to the Exhibit No. 1 that we went over --

13 THE COURT: All right.

14 MR. STROCHAK: -- already, so they're essentially
15 offered as background.

16 THE COURT: All right. That's 12 through 16?

17 MR. STROCHAK: 12 through 16, exactly.

18 THE COURT: Okay.

19 MR. STROCHAK: Exhibits 5 through 10 is a series of
20 correspondence between myself and counsel for the creditors
21 committee. It's, you know, a back and forth concerning the
22 negotiation and information flow process in the case. Mr.
23 Lubin may allude to some of those documents in his testimony.
24 But, again, for the most part they're provided to establish a
25 record that we've had a series of communications with the

Wilhouse - Direct

17

1 committee, and I may address some of them in closing arguments

2 --

3 THE COURT: Okay.

4 MR. STROCHAK: -- on the matter. The Exhibit 3, the
5 valuation report, is as previously discussed.

6 THE COURT: Right.

7 MR. STROCHAK: Exhibit 4 is simply a list of
8 documents that have been provided to the creditors committee.
9 Mr. Lubin will allude to that in his testimony. And the last
10 one is Exhibit 11, Your Honor. That's the copy of the
11 disclosure statement --

12 THE COURT: All right, that's fine.

13 MR. STROCHAK: -- that we filed. Is that helpful?

14 THE COURT: Yes, that is. That's helpful.

15 All right. Cross-examination?

16 MR. BRACHT: Thank you, Your Honor. Gerry Bracht
17 with Andrews Kurth for the debtors.

18 THE COURT: Nice to see you again, Mr. Bracht.

19 MR. BRACHT: Thank you, sir. Same to you. Your
20 Honor, I've got an exhibit, a Debtors Exhibit O, and I don't
21 believe, Your Honor, that there are any objections to this
22 exhibit and just, I guess -- or perhaps any of them. I'm not
23 going to --

24 THE COURT: Do you have a set of the --

25 MR. BRACHT: I'm not going to introduce all of them

Wilhouse - Direct

18

1 yet.

2 THE COURT: Okay. Do you have a set of exhibits --

3 MR. BRACHT: Yes, I do, Your Honor.

4 THE COURT: -- to hand up and --

5 MR. BRACHT: Do you want all of them?

6 THE COURT: Yeah, why don't you give me all, and I'll
7 return whatever doesn't get --

8 MR. BRACHT: Okay.

9 THE COURT: -- introduced.

10 MR. BRACHT: After your comment, Your Honor, I took
11 out O [inaudible].

12 THE COURT: That's fine.

13 MR. BRACHT: [Inaudible].

14 THE COURT: Okay. Mr. Strochak, what's the -- do you
15 have objections to --

16 MR. STROCHAK: I don't have any objections to the
17 exhibits. Some were offered for limited purposes is my
18 understanding.

19 THE COURT: Okay.

20 MR. STROCHAK: So -- and I could comment on those
21 specifically if we want to go through them. I have no
22 objection to O if you want to start with that.

23 THE COURT: Well, I've leave it to Mr. Bracht to --
24 all right, so Committee's Exhibit O is admitted in evidence.

25 (Committee Exhibit O, Received.)

Wilhouse - Cross

19

1 CROSS-EXAMINATION

2 BY MR. BRACHT:

3 Q. And, Mr. Wilhouse, let me show you a copy of that --

4 A. Thank you, sir.

5 Q. -- as well.

6 A. Okay.

7 Q. And at the same time we're talking about this Exhibit I
8 want to compare it to Exhibit A that -- excuse me, Exhibit 1
9 that you prepared. Now, you don't -- you've never seen Exhibit
10 O before, but I'll tell you that this is a chart that the SRR
11 people have prepared breaking down the financial performance of
12 the company from June through August. And it -- you can see
13 the minus 18.5 percent variance on EBIDA for the consolidated
14 company right up at the top.

15 [Pause in proceedings.]

16 Q. Top box, bottom right-hand corner.

17 A. Yes, I see it. Thank you.

18 Q. And that is the same basic number that you have for the
19 total company EBIDA on Exhibit 1, correct?

20 A. Yes.

21 Q. Okay. And if you look at Exhibit 1, and I'm referring to
22 your testimony about how the various parts of the company had
23 been doing over these months, and we start in July because by
24 the time the forecast -- because that's when the forecasts were
25 prepared, that was basically the first month of the forecast,

Wilhouse - Cross

20

1 maybe June. But you had a lot of data in for June already at
2 that time; is that right?

3 A. I'd have to check but I think June was forecast data.

4 Q. Okay. Okay. And Exhibit O shows June through August,
5 right?

6 A. Yes.

7 Q. Okay. And on Exhibit 1 you said earlier that the
8 insulators and medical components are pretty much right on
9 track, and you were referring, I think, to perhaps the first
10 entry under net sales and also the first entry under EBIDA that
11 shows, you know, basically an increase to forecast of 1.5
12 percent and an increase to EBIDA of 2.3 percent, correct?

13 A. Yes.

14 Q. Okay. And actually the insulator and medical components
15 line, that is a combination of those two businesses, correct?

16 A. Yes. And --

17 Q. And if you were to look at the medical business
18 separately, and I think if you look on maybe the second page of
19 Exhibit O --

20 A. I have it.

21 Q. -- again first box, bottom right-hand corner, the SRR
22 folks have determined that the medical component of your
23 business is actually behind budget of almost 6 percent,
24 correct?

25 A. 59,000 on a million 61.

Wilhouse - Cross

21

1 Q. Is the 5.6 percent an accurate number as far as you know,
2 Mr. Wilhouse?

3 A. I would say yes. Yes.

4 Q. Okay. So, as a matter of fact, the parts of your business
5 that produce products, let's just go down them very quickly.
6 Connector seals, it's doing very poorly, correct?

7 A. The OEM business is down, yes.

8 Q. But you don't divide your businesses into OEM and after
9 market. You've got, well, I'm going to call them divisions,
10 but you basically got four divisions the way you've run your
11 company since the very beginning, and that's insulators,
12 connector seals, metals, and medical, correct?

13 A. Well, that's true. But the insulator business is like 80
14 percent after market.

15 Q. That's not what you've said publicly in the past, is it,
16 sir?

17 A. I can't confirm or deny that. I'd have to -- to look.

18 Q. All right. Well, we'll cover that later perhaps. But the
19 fact of the matter is that if you look at it on the basis that
20 you -- the way you guys keep your books, the medical business
21 is below budget, the metals business is below budget, the
22 connector seal business is below budget, and insulators is the
23 one of the four divisions that's running ahead of budget,
24 correct?

25 A. Yes.

Wilhouse - Cross

22

1 Q. And the trend -- go back to the first page of Exhibit O --
2 starting in June -- you're at the top box again on a
3 consolidated basis. Starting in June and moving through August
4 the shortfall budget-to-actual consistently gets worse. Starts
5 in June and just a little bit, .3 percent negative, right?

6 A. That's true. But it's all driven by the OEM business.

7 Q. Well, the numbers are the numbers, aren't they, sir?

8 MR. STROCHAK: Objection, Your Honor.

9 THE WITNESS: I would agree.

10 BY MR. BRACHT:

11 Q. The OEM business is part of your business, isn't it?

12 A. It is.

13 Q. And actually you sell insulators to original equipment
14 manufacturers, don't you.

15 A. We do sell some, yes.

16 Q. Okay. But as you see, the trend in the business on a
17 consolidated basis starting in June and going through August
18 gets consistently worse. And that's just three months into the
19 year, correct?

20 A. That's three months, that's correct.

21 Q. Now, just yesterday after we had filed our exhibit
22 designations the debtors filed their September monthly
23 operating report, correct?

24 A. Yes.

25 MR. BRACHT: And that is Exhibit V, Your Honor, in --

Wilhouse - Cross

23

1 it was added late.

2 THE COURT: That's fine. I actually have a copy that
3 we printed out off of ECF. I have that in front of me. So
4 that's Exhibit B?

5 MR. BRACHT: V as in Victor.

6 THE COURT: Oh, V as in Victor. Okay.

7 MR. BRACHT: So I would move -- at this -- I don't
8 know kind of where we are procedurally, but I -- Exhibit O's
9 in. I'd like Exhibit V to be in as well.

10 THE COURT: Fine. Any objection?

11 MR. STROCHAK: No objection, Your Honor.

12 THE COURT: Exhibit V is in evidence.

13 (Committee Exhibit V, Received.)

14 [Pause in proceedings.]

15 BY MR. BRACHT:

16 Q. Now, do you -- are you familiar with the contents of
17 Exhibit V, the --

18 A. Yes.

19 Q. -- September monthly operating report?

20 A. Yes.

21 Q. If you turn to about the fourth page in, the page entitled
22 Preliminary Consolidated Statement of Earnings, and down at the
23 bottom under EBIDA number it shows 202; is that right? That's
24 on a consolidated basis, right?

25 A. Yes.

Wilhouse - Cross

24

1 Q. And the monthly operating report is not divided or broken
2 out into separate divisions, correct?

3 A. That's correct. But the EBIDA number there is after
4 deducting the 408,000 reorganization expenses, so it's really
5 610.

6 Q. Okay. And how does that compare, if you know, to the
7 forecasted EBIDA number for September?

8 A. I don't have the exact EBIDA number in my head, but it is
9 below the EBIDA forecast for September.

10 Q. It's significantly below, isn't it, sir? In fact, it's in
11 -- it's greater than the 38.1 percent that's shown on Exhibit
12 O, isn't it?

13 A. I don't know if I can cite the exact number but I know the
14 OEM business was -- continued to be below forecast in
15 September. Significantly.

16 Q. And but we don't -- we haven't had -- we, meaning the
17 committee, hasn't had the benefit of seeing the broken-out
18 financials with respect to various divisions so we don't know
19 how the other divisions have done but we do know OEM is bad.

20 A. That's correct.

21 Q. But the point is it's on a consolidated basis, your
22 company for the fourth month in a row has missed your mark,
23 missed your numbers, and missed them by a wide margin. Would
24 you agree with that, sir?

25 A. The company as a whole has missed its margins, but some of

Wilhouse - Cross

25

1 the specific divisions, specific divisions that are of
2 particular interest, have not.

3 Q. I'm sorry, sir. I didn't hear that last --

4 A. I said as a whole that's correct but --

5 Q. Okay.

6 A. -- certain of our divisions where we believe there is a
7 particular value have basically been on their -- on their
8 budget.

9 Q. As far as we can see, based on what we've looked at here
10 today in the documents, there's one division that's on budget
11 and the other three are not.

12 A. Well, I agree. Connector seals is above budget. Medical
13 is 59,000 or 5.6 below budget, if we want to consider that a
14 big miss. You know, that would be your interpretation. It's
15 not my interpretation.

16 Q. Well, it's not my interpretation. I don't want to
17 characterize it. The point is is it's below budget by 5.6
18 percent, correct?

19 A. Yes.

20 THE COURT: Mr. Wilhouse, just how much were the
21 reorganization expenses in September?

22 THE WITNESS: 408,000, Your Honor.

23 THE COURT: That was -- if you go to the next page of
24 the report, reorganization items.

25 THE WITNESS: Uh-huh.

Wilhouse - Cross

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1 THE COURT: That adds up to \$894,714.60.

2 THE WITNESS: Correct.

3 THE COURT: So the reorganization expenses were a
4 million and a half for the month.

5 THE WITNESS: Permit me to explain.

6 THE COURT: Please do.

7 THE WITNESS: The -- the reorganization expenses on
8 the next page are on a paid basis. Most of those would have
9 been previously accrued in the financial statements, Your
10 Honor.

11 THE COURT: Okay. All right.

12 Go ahead, Mr. Bracht.

13 MR. BRACHT: Thank you.

14 BY MR. BRACHT:

15 Q. Mr. Wilhouse, you talked a little bit about the process of
16 preparing the projections, and you described what sounds like a
17 fairly vigorous -- excuse me -- rigorous process to get to the
18 numbers that you got initially, correct? Would you agree with
19 me, you think it was --

20 A. Yes.

21 Q. -- pretty rigorous?

22 A. I would.

23 Q. You tried to be complete. As I understand it, the sales
24 people and managers of the various divisions would give you
25 sales projections and other data, and you would push back at

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1 them and you'd make sure that what they were giving you was the
2 best that you guys had available and could present to the Court
3 and to us --

4 A. Uh-huh.

5 Q. -- correct?

6 A. That's correct.

7 Q. Okay. And as the data came out -- and, as you know, SRR
8 has requested a lot of backup data with respect to the
9 projections, correct?

10 A. Yes.

11 Q. And as a result of that due diligence, as you indicated,
12 there were some errors, some mistakes in the projections that
13 were pointed out by SRR, correct?

14 A. And some we found ourselves --

15 Q. I understand.

16 A. -- later on.

17 Q. But SRR served a purpose --

18 A. Uh-huh.

19 Q. -- in requesting the backup data and in trying to make
20 sure that the projections contained correct information whether
21 or not they necessarily agreed with the conclusions. Is that a
22 fair statement?

23 A. That's a fair statement.

24 Q. Okay. And as a result of that process, sometime, I
25 believe, in early September after going through a lot of -- a

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1 rigorous process to try to come to grips with these numbers,
2 Mr. Lubin and the debtors indicated that there would be a re-
3 forecast not only with respect to connector seals, which was
4 obviously going down the tubes, but also with respect to
5 medical and with respect to insulators, correct?

6 A. That's correct. It was our understanding that SRR wanted
7 us to make the changes and to develop as current a forecast as
8 possible.

9 Q. Well --

10 A. So we did. I -- I would like to add that when we did the
11 connector seals forecast that was driven in large part by the
12 CSM data, which changed just several months later, and that in
13 the revised forecast we're using the new revised CSM data for
14 Carville's [Ph.] in 2009 and thereafter.

15 Q. In any event, there's been a big change in the forecast,
16 correct?

17 A. At connector seals, yes.

18 Q. And I believe you said it was down 20 percent from the
19 previous forecast; is that correct?

20 A. I don't have the exact number for connector seals in my
21 head, but it will be down.

22 Q. And connector seals is not an insignificant part of your
23 business, is it, sir.

24 [Pause in proceedings.]

25 A. Well, today, today it's a relatively small part of the

Wilhouse - Cross

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1 business. As I -- you know, the sale --

2 Q. Historically --

3 THE COURT: Let him finish. Go ahead.

4 Go ahead.

5 MR. BRACHT: I'm sorry.

6 THE COURT: That's fine.

7 THE WITNESS: I mean in the past it was a significant
8 part of our business but, you know, we're all aware of what's
9 happening in OEM automotive today, and the sales trend there
10 has clearly been down.

11 BY MR. BRACHT:

12 Q. Historically is the -- connector seals is something like,
13 what, 17 to 18 percent of your business?

14 A. I'd have to check the numbers.

15 Q. Does that sound about right?

16 A. From the sales standpoint?

17 Q. Yes, sir.

18 A. Let's see. That should be, I would say, approximately
19 correct.

20 Q. Now, you said earlier that the adjustments -- well, let me
21 back up just one second just to make sure. Is it your
22 testimony that you did, that the debtors did the re-forecasting
23 because SRR requested it?

24 A. Well, the re-forecasting was -- is being done to pick up
25 all the items SRR pointed out and to update the forecast for

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1 the latest CSM data and any other changes, any other
2 significant changes that have taken place in the last two or
3 three months.

4 Q. But just to be clear, SRR did not request to you to re-
5 forecast your sales projections, did they?

6 A. [No audible response.]

7 Q. They pointed out mistakes, but you can't point me to any
8 e-mail or any correspondence or anything else that says, hey,
9 and as a result of this you guys need to go out and do your re-
10 forecasting.

11 A. I can't. It's just my understanding that the intention
12 was that we should re-forecast and get the forecast as correct
13 as possible.

14 Q. And you wanted that too.

15 A. Uh-huh.

16 Q. And --

17 THE COURT: You have to answer audibly.

18 THE WITNESS: Yes.

19 BY MR. BRACHT:

20 Q. And, as a matter of fact, you knew or -- I say you kind of
21 in the royal sense, but Mr. Lubin and SRR and I'm sure you as
22 the CFO knew that in the period of time since June or July that
23 there had been some changes that SRR hadn't talked about and
24 that you guys felt like you needed to go back and make those
25 changes as well, correct?

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1 A. That's correct.

2 Q. Okay. And --

3 A. In particular in the CSM data.

4 Q. Right. But in the process you changed the forecast on
5 medical and you changed the forecast on insulators, and that
6 information was not presented to SRR until really in early
7 October of 2008, this month; is that right?

8 A. I'm not exactly sure when it was given to them.

9 Q. Recently.

10 A. Fairly recently.

11 Q. Okay. And with respect to connector seals, we didn't get
12 that, SRR didn't get that until last week.

13 THE COURT: Didn't get what?

14 BY MR. BRACHT:

15 Q. The revised projections and the backup data of -- first of
16 all, the backup data that we had with respect to the other
17 divisions that we had been asking for since probably May; is
18 that right?

19 THE COURT: Break that in -- I'd like to hear --

20 MR. BRACHT: Okay. I'm sorry.

21 THE COURT: I'd like to hear that separated --

22 MR. BRACHT: Okay.

23 THE COURT: -- when you received backup data on the
24 initial set of forecasts and when revised forecasts were
25 provided and when backup data -- you sort of mashed it all

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1 together, and I want to be sure I understand it all, Mr.
2 Bracht.

3 MR. BRACHT: I agree, Your Honor. Thank you.

4 BY MR. BRACHT:

5 Q. Let's take them one at a time. The revised forecast for
6 medical was received in early October; is that a fair
7 statement?

8 A. I would say yes.

9 Q. Okay. The revised forecast for insulators was received in
10 early October as well, correct?

11 A. I believe that's correct.

12 Q. When was the revised forecast for connector seals
13 provided, to the best of your recollection?

14 [Pause in proceedings.]

15 A. I believe that was sent a week and a half or two weeks
16 ago, but I would have to check that.

17 Q. Okay. And --

18 A. To be sure.

19 Q. -- there -- I don't want to use them if I don't have to,
20 but, in terms of the backup data for connector seals, that was
21 provided, I believe, on October the 23rd. Is that consistent
22 with your recollection?

23 A. I can't answer that. I don't believe that came directly
24 from my office.

25 Q. Okay. Do you have any reason to believe that it was

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1 provided any earlier than October the 23rd?

2 A. I don't know the answer to that.

3 Q. Okay.

4 A. I would have to check.

5 Q. But, in any event, it was provided recently. Would you
6 agree with that?

7 A. Within the last several weeks, yes.

8 Q. Okay.

9 THE COURT: Mr. Wilhouse, with the initial forecasts
10 that you provided SRR, had they been provided with the backup
11 data for those forecasts?

12 THE WITNESS: As I recall, Your Honor, all of the
13 backup data was provided to SSR [sic] essentially with the
14 forecast.

15 THE COURT: Okay.

16 THE WITNESS: They did have questions -- well, they
17 had questions on all the sales forecasts. They went through
18 all the sales forecasts. But they did request more information
19 on the connector seals forecast.

20 BY MR. BRACHT:

21 Q. Mr. Wilhouse, you remember that one of the things that SRR
22 wanted with respect to your forecast was a breakdown of sales
23 forecast by booked business, you know, whatever the next
24 category would be, and on down the line from the most likely to
25 the least likely. Remember that?

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1 A. I do, but I did not handle that.

2 Q. Okay. And you know, don't you, that that type of data was
3 provided pretty early on with respect to insulators and
4 medical, correct?

5 A. Yes.

6 Q. But the data, that data with respect to connector seals
7 was not provided until much later, was it?

8 A. It was provided later.

9 Q. Okay. And let me, just to --

10 A. But we did provide what we had. I think SRR did not like
11 what we provided.

12 Q. Okay. We'll go in -- we'll cover that later.

13 MR. BRACHT: Your Honor, Exhibits 11 and -- L and M.

14 [Pause in proceedings.]

15 BY MR. BRACHT:

16 Q. Do you see Exhibit L, Mr. Wilhouse?

17 A. Yes.

18 Q. That is a series of e-mails that indicates -- and I
19 misspoke -- that indicates that the Vienna -- that's connector
20 seals, correct?

21 A. Yes.

22 Q. -- that the updated financial projections for Vienna were
23 provided to SRR representatives on October the 20th. You see
24 that?

25 A. Yes.

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1 Q. Okay. And then if you go to Exhibit M down at the very
2 bottom on the first page, an e-mail from Mr. Lubin to Mr.
3 Haras.

4 A. Uh-huh.

5 Q. He says, "Kurt --" Mr. Haras is with W. Y. Campbell. He
6 says, "Attached is the backup to the Vienna sales forecast."
7 And that's dated October 20th, correct?

8 A. Yes.

9 Q. And then you see where Mr. Haras has then forwarded that
10 on to the folks at SRR on the 20th, correct?

11 A. Yes.

12 Q. I think -- is it fair to say that when the original
13 projections came out, Mr. Wilhouse, that you had gone through a
14 process to where you were comfortable with the projections that
15 you had produced?

16 A. At the time they were issued, yes.

17 Q. Okay. We now see that for a period of four months from
18 the very beginning of the projections as they go forward you've
19 missed your budget. Do you still consider the budget to be a
20 reasonable budget?

21 A. The original forecast?

22 Q. Yes.

23 A. Not with respect to connector seals or machining based on
24 what I know today.

25 Q. Okay.

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1 A. And I would like to add in medical the reason we missed
2 there is primarily because of a delayed price increase on the
3 dextrous program with ETHICON Endo-Surgical Unit of Johnson &
4 Johnson. We have received those price increases.

5 Q. Have you received them today?

6 A. I would say last week.

7 Q. You have something signed?

8 A. I believe we do.

9 Q. Have you produced it to the folks at SRR?

10 A. I have not, but I believe it was discussed in a
11 conversation that was held with SRR last week.

12 Q. But that signed price -- even it's a signed price
13 increase, that price increase does not affect your projections.
14 Because that price increase was imbedded in your projections
15 from the original version, correct?

16 A. That's correct. But my point is in terms of the medical
17 forecast for June, July and August, I believe we had the price
18 increase going in there on July 1st.

19 Q. Right.

20 A. And I don't have the precise numbers. My sense is that if
21 we'd actually had the price increase then instead of now,
22 medical would be pretty much right on the money.

23 Q. Okay. Doesn't change the numbers though.

24 A. No.

25 Q. Okay. Do you have any estimation -- strike that. Changes

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1 were made as well to medical and insulators, correct?

2 A. Yes.

3 Q. And there were some negative changes, in other words there
4 were some reductions in revenue --

5 A. Yes.

6 Q. -- or volumes.

7 A. Yes.

8 Q. Some of those were pointed out by SRR. And those
9 reductions were made because they actually occurred, correct?

10 A. (No audible response.)

11 Q. There was something that happened that caused you to say
12 we're not going to get that business.

13 A. I can't answer directly yes or no because the change in
14 the sales forecast wasn't handled by my office.

15 Q. It was done by the divisions on a one-to-one basis, right?
16 By the managers and the --

17 A. Yes.

18 Q. -- sales managers.

19 A. Yes.

20 Q. Okay. The changes in the positives, in other words the
21 increases in volumes that went into this revised budget that
22 basically at the end of the day puts you basically in the same
23 place, those changes were forecasted or projections of future
24 business, correct?

25 A. Yes, based on discussions with customers or other relevant

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1 data.

2 Q. Okay. So in the one instance you've got situations where
3 you know you've lost business that requires a change in a
4 negative sense but then there are projections that are made in
5 the future in a positive sense that are based on your best
6 hope, your best information but still not business in the door
7 and not booked, right?

8 A. Well, in the automotive business and the medical business
9 in terms of orders, I don't know that anyone issues firm orders
10 for extended periods of time. They'll give you their estimated
11 annual requirements and place releases with you over the course
12 of the year. But the changes in the forecast could have been
13 because of just simple mistakes that were made in terms of
14 quantities and new information that arose. I can't give you a
15 litany of why changes -- you know, why each one of the changes
16 was made, because -- and I'm not dodging the question -- they
17 weren't made in my office.

18 Q. Okay. Well, in fact in those businesses you really don't
19 have that business until it's on the floor being produced.
20 That's pretty much correct, isn't it?

21 A. That's true. But there is a process where some of the new
22 business we may receive, prototype tooling or we may talk to
23 the customer. So we basically have a relatively short list of
24 customers, and we're in contact with them, I would say, all the
25 time. We have a very good sense of the projects they're

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1 working on and how we fit or don't fit in those projects.

2 Q. I have just a few questions about the DIP, and I'm a
3 little confused. You said that you have not drawn on the DIP?

4 A. That's correct.

5 Q. But you're paying interest on it?

6 A. Yes.

7 Q. Have you -- is it -- could it be that you've drawn on it
8 but you've just got it sitting in cash?

9 A. From my perspective, we haven't drawn on the DIP. DIP is,
10 as you know, \$4 million. We have \$6 million available to us.

11 Q. Does that include the DIP?

12 A. Yes.

13 Q. Is there a reason why you're paying interest on the DIP if
14 you haven't drawn on it?

15 A. I would have to respond by saying those were the terms of
16 the DIP agreement. We do have the cash, the company does have
17 the cash.

18 Q. Where is the cash?

19 A. It's in Capital One Bank.

20 Q. Okay.

21 MR. BRACHT: I believe that's all I have, Your Honor.

22 THE COURT: Thank you very much, Mr. Bracht.

23 Mr. Strochak, redirect?

24 REDIRECT EXAMINATION

25 BY MR. STROCHAK:

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1 Q. Mr. Wilhouse, have the debtors undertaken any efforts to
2 contain costs to deal with what's been going on in the OEM auto
3 market and the conductor seals business.

4 A. Yes.

5 Q. And what efforts are those?

6 A. Within the last two months or so there has been an
7 extremely aggressive program to realign the resources within
8 the connectors field -- connector seal division with the near-
9 term sales requirements that we see coming out of that
10 division. Significant number of head count reductions and
11 direct labor, indirect labor, and the salary ranks. Some of
12 those reductions will -- I think the final reductions right now
13 will be taking place this week and next week. And we're
14 obviously looking at [inaudible] --

15 THE COURT: That means layoffs this week?

16 THE WITNESS: Pardon?

17 THE COURT: That means layoffs?

18 THE WITNESS: Yes. Yes, Your Honor.

19 BY MR. STROCHAK:

20 Q. Have the steps that debtors have taken to control costs in
21 that business, have they yet hit the bottom line?

22 A. No. No. Most of the layoffs took place in October. So
23 you're not going to see it in the September statements, and
24 you'll see a small portion in October. We believe with the
25 cost reductions and the -- the sales projections we currently

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1 have we should be able to run that business at a breakeven
2 point in November and thereafter.

3 Q. Now, I know it's obviously been reported widely in the
4 press, but could you just generally describe from your
5 perspective what's been happening in the OEM auto market over
6 the last several months?

7 A. Well, I guess as most of us know, the build of new cars
8 and trucks in the U.S. has fallen from roughly an annualized
9 rate of 16, 17 million in the last seven or eight years to -- I
10 think the latest number I have in my head is 12 and a half to
11 13 million. In addition to that, our OEM business has been hit
12 hard because our OEM customers, who manufacture subassemblies
13 that then go on to the assemblers -- GM, Ford, Chrysler, Toyota
14 -- have all dramatically slashed their inventories. So there's
15 sort of what I would say is, not to be cute, but a double
16 whammy. Lower production sales and then in our customers'
17 inventories.

18 Q. And with -- does the reduction in your customers'
19 inventory suggest anything to you about the future?

20 A. It suggests to me that they're anticipating the build in
21 North America to remain low for some time.

22 Q. In your experience, sir, is it unusual to go back and do
23 adjustments to a forecast?

24 A. No.

25 Q. And has the company done that in the past in connection

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1 with its --

2 A. Yes.

3 Q. -- forecasting processes?

4 A. Yes.

5 Q. Have the -- did the SRR team point out anything that
6 struck you as particularly unusual in reviewing your forecasts?

7 A. Based on the ones I'm aware of, I would say no. But they
8 did find some things we agreed were incorrect. And we told
9 them so.

10 MR. STROCHAK: All right. Thank you, sir. No
11 further questions.

12 THE COURT: All right. Mr. Bracht?

13 MR. BRACHT: Your Honor, I would just like to offer,
14 just for the record, make sure that the record's clean, I
15 believe --

16 THE COURT: You've got L and M that you haven't
17 offered yet.

18 MR. BRACHT: I haven't offered L and M?

19 THE COURT: No.

20 MR. BRACHT: I'll offer L and M --

21 THE COURT: All right.

22 MR. BRACHT: -- at this time.

23 MR. STROCHAK: No objection. Thank you.

24 THE COURT: All right. Exhibits L and M are in
25 evidence.

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1 (Committee Exhibits L and M, Received.)

2 MR. BRACHT: No further questions, Your Honor.

3 THE COURT: Thank you very much. The witness can be
4 excused. Please step down.

5 THE WITNESS: Thank you, Your Honor.

6 [Pause in proceedings.]

7 MR. STROCHAK: We call Michael Lubin, Your Honor.

8 THE COURT: Okay.

9 THE COURT: If you'd just raise your right hand, Mr.
10 Lubin.

11 (MICHAEL LUBIN, THE DEBTOR'S WITNESS, WAS SWORN.)

12 THE COURT: Thank you. Have a seat.

13 DIRECT EXAMINATION

14 BY MR. STROCHAK:

15 Q. Good morning, Mr. Lubin. Would you just state your
16 position with the debtors, please?

17 A. I'm the Chairman of the Board of the company.

18 Q. Mr. Lubin, have you been involved with the process of
19 exchanging information with the creditors committee and its
20 financial advisers?

21 A. Yes, I have.

22 Q. I'm going to give you what we've marked as Debtors Exhibit
23 4, it's in evidence now.

24 MR. STROCHAK: I apologize to everyone for the type
25 size on this. I know it's a little bit hard to read but --

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1 it's small but it's clear, I hope.

2 THE WITNESS: It's discrimination against older
3 people like me who need reading glasses and maybe stronger ones
4 for this.

5 BY MR. STROCHAK:

6 Q. Mr. Lubin, what is Exhibit 4?

7 A. I believe it's a list of the information that was
8 requested and provided -- requested by SRR provided to them by
9 the debtors.

10 Q. Now, is it before it's prepared by whom?

11 A. I believe it was prepared by W. Y. Campbell, who handled
12 the actual exchange of the information with SRR.

13 Q. Could you describe sort of in general terms the exchange
14 of information, financial data and other information with the
15 committee and its financial advisers since the last hearing
16 before this Court on -- in July on exclusivity?

17 A. Well, I would say we've endeavored to provide the
18 committee, as quickly as we had it available, the information
19 that was requested by SRR. Some of it frankly took longer than
20 we hoped it would. The effort was to make it as accurate as
21 possible and to present the current situation of the company is
22 in as best possible. But I think we responded to essentially
23 every request they've made, although, again, some things may
24 have taken a bit longer than we would have liked them to take.

25 Q. Have the debtors intentionally delayed providing any

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1 information to the creditors committee?

2 A. No, we have not.

3 Q. Now, there was some testimony from Mr. Wilhouse and some
4 questions from Mr. Bracht regarding the connector seals
5 forecast. Do you recall the process by which the connector
6 seals data was provided to the committee and SRR?

7 A. Well, I believe as every -- as everything else, it was
8 provided to W. Y. Campbell. I think they may have put it on a
9 -- on a web site that SRR had access to, but I don't know
10 precisely.

11 Q. The backup data for the initial forecast in July, to the
12 best of your knowledge, sir, was that information provided to
13 SRR?

14 A. I believe it was provided to them. I think, if I remember
15 from looking at the list, it was provided sometime in late
16 August. And, frankly, that was a document we thought had been
17 provided earlier. We thought the issue was that SRR was not
18 satisfied that there was enough solid backup for that, and we
19 were endeavoring to figure out what else we could give them
20 beyond that. But, in any case, I believe they got it late
21 August and have had it for some time.

22 Q. With respect to the updated connector seals forecast, what
23 was the process for providing that information?

24 A. I'm sorry, for providing it?

25 Q. Right.

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1 A. Well, we -- we determined -- sometime in late August we
2 were notified that we had lost a couple of large volume parts
3 that would have some significant impact on the forward going
4 sales forecast. In addition, we began to note that there were
5 significant reductions being made in the overall car build that
6 was going to be driving the -- the sales level in this business
7 going forward, and we determined --

8 Q. Let me interrupt you for one second.

9 A. Okay.

10 Q. I think the Court has a question.

11 THE COURT: You said you lost a number of parts. I
12 assume that you lost orders parts --

13 THE WITNESS: We --

14 THE COURT: -- is that what --

15 THE WITNESS: We were informed by the customer that
16 these parts had been resourced.

17 THE COURT: What does that mean?

18 THE WITNESS: That they had found another supplier
19 actually using the material that's different from the materials
20 we mold that let them purchase those parts at a lower cost.

21 THE COURT: Okay. Go ahead, Mr. Strochak.

22 BY MR. STROCHAK:

23 Q. I'm sorry, I interrupted you. Were you through?

24 A. I'm not sure where we were. But we were aware that the
25 overall OEM sales build forecasts were coming down across the

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1 board, and we requested the most up-to-date information from
2 CSM, which is the forecasting service we've been using for this
3 purpose. When we got that we asked the connector seals
4 division personnel to take a look at their forecast, to speak
5 with their customers, get the most updated information they
6 had, and try to revise that forecast to reflect the new sales
7 data and the parts that we knew we would have going forward or
8 believed we would have going forward.

9 Q. And at this point that process has been completed or is it
10 still under way?

11 A. It has been completed.

12 Q. And the revised forecast was provided to the committee,
13 correct?

14 A. Yes, it was. I believe Mr. Bracht said October 20th.
15 That sounds like it's very possible. It was provided as soon
16 as it was available.

17 Q. Mr. Lubin, I'm going to give you a copy of Debtors Exhibit
18 3 in evidence. Exhibit 3 is the draft valuation report
19 prepared by W. Y. Campbell. Could you just briefly explain for
20 the Court the process that the debtors and its financial
21 advisers engaged in to provide valuation information.

22 A. Well, basically we provided to Campbell all the forecast
23 data we had, all the additional data that reflected the views
24 of the values of the businesses, and Campbell assembled this
25 report using their expertise in the industries that we work in.

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1 Q. Now, was there any valuation information in the disclosure
2 statement, proposed disclosure statement?

3 A. There was. It was a summary of where Campbell's valuation
4 conclusions were at that point in time.

5 Q. And the disclosure statement was filed, if I remember
6 correctly, in early August; is that right?

7 A. I thought August 8th. I think it's the same date as the
8 date this is written.

9 Q. Now, the draft valuation report, Exhibit 3, is dated as of
10 August 8th but in fact it was provided later, correct?

11 A. That's correct.

12 Q. And approximately when, do you recall?

13 A. I want to say the second week in September but I'm not
14 sure exactly. It's probably on this list but I don't -- I'm
15 not sure I could find it.

16 Q. I think the approximation is okay.

17 THE COURT: When did Lexington receive the draft
18 report from Campbell?

19 THE WITNESS: It was provided as soon as it was
20 available, Your Honor. I'd say in September.

21 BY MR. STROCHAK:

22 Q. Mr. Lubin, with respect to the debtors different business
23 segments, could you just describe in general terms how, from
24 the debtors' perspective, they view the allocation of value
25 between those segments? And again I'm not looking for

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1 valuation testimony, just the debtors' view as to where they
2 believe the value lies.

3 A. Well --

4 THE COURT: I don't understand your question.

5 MR. STROCHAK: Let me rephrase if I could.

6 BY MR. STROCHAK:

7 Q. Do the debtors have a view as to the relative values of
8 their different business segments?

9 A. I'd say yes, we do.

10 Q. What's the debtors' perspective on which segments are
11 driving positive valuation?

12 A. We believe that the bulk of the value of this enterprise
13 is centered in the medical business and the insulator business,
14 which, as Mr. Wilhouse testified, has become primarily an after
15 market business. And I would say that that represents the
16 great bulk of the value in the company. The OEM business,
17 which had been an important segment, has become a much smaller
18 segment and a much smaller piece of the valuation. In fact,
19 our view is that, as to the present time, those values that are
20 attributable to the businesses primarily serve those end
21 markets or that end market is really the wind-down value of
22 those businesses. In effect, it's liquidation value of those
23 businesses.

24 Q. And with respect to the -- let me rephrase. To your
25 knowledge, did the debtors have any communications with the

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1 committee regarding the implications of revised forecasting in
2 the connector seals business to discussions and negotiations
3 over value?

4 A. I'd say in general as we were updating, the forecasts, in
5 our view, reflect the most up-to-date information we had
6 available. We indicated to the committee and to SRR that we
7 didn't believe that the forecasts for the medical or the after
8 market business would change materially when we got done with
9 them but that clearly the forecasts for the connector seals
10 division and for the [indiscernible] business would be reduced
11 in line with the new overall car build forecast. However, we
12 told them that we believe that at this point the valuation
13 built into those business in this valuation report was
14 essentially equal to the wind-down value of those units, and,
15 as a result, that should not have any significant impact on the
16 overall value of the company.

17 [Pause in proceedings.]

18 Q. With respect to what the debtors have been experiencing in
19 their OEM businesses, in the connector seals and the metals
20 businesses, from your perspective, sir, do you believe the
21 debtors are affected any differently than the bulk of
22 automobile suppliers in the industry?

23 A. We haven't studied every supplier in the industry, but I
24 read plenty of reports that say that essentially the entire
25 industry is forecasting down and that everyone is being

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1 significantly affected in a negative way by what's happening
2 with the car builds and with the changes in inventory levels
3 throughout the supply chain.

4 Q. Now, Mr. Wilhouse testified briefly about the steps that
5 debtors have taken to control costs in the connector seals
6 business. Is there anything that he might have missed that you
7 wanted to add to that?

8 A. Well, no. I would say perhaps we could have acted a
9 little quicker. We, I would say, were not thinking that from
10 the reductions that we got from CSM in June and early July that
11 things would drop again by a dramatic amount. So perhaps we
12 would have taken more costs out earlier. But, in any case,
13 we've reacted to it, tried to react to it as quickly as we can.
14 There are delays to some extent because we have to give people
15 severance or notification, and we believe they will have a
16 beneficial impact. As Mr. Wilhouse said, the goal here is
17 we're now looking at this in the near term as being an \$800,000
18 a month business for the next several months, and our goal is
19 to get it to the point that it's operating break even, which
20 would mean probably a \$140,000 or thereabouts of EBIDA positive
21 from that business. What it does mean is that once we've done
22 that, if sales pick up, then we should make a handsome increase
23 in cash flow every month.

24 Q. Now, Mr. Wilhouse mentioned that your customers are
25 reducing their own inventories of parts. Does that suggest to

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1 you anything about possible trends for the future for
2 Lexington?

3 A. Well, we -- we've talked to the customers and gotten a --
4 the best input we could get from them. We -- you don't get
5 perfect information from customers, I've found. That's just
6 fact. But we -- we know that they've brought their inventory
7 levels down significantly, we think in some cases 30 days and
8 some cases as much as 45 days. What it says to us is at some
9 point in time -- no, what it says to us is today the volumes
10 we're experiencing are not really indicative of the true demand
11 that would be created by the sale -- by the bill level and the
12 sales level in the auto industry. We know that if they are
13 buying let's say a million dollars of product over a nine-month
14 period, that probably that only represents seven and a half or
15 eight months worth of real demand once they get through their
16 inventory reductions. Because we know that they're pulling
17 their inventories down. So it suggests that at some point in
18 time once the business stabilizes, and I have to believe that
19 they will be making cars and at some -- we're at a very
20 historically low level. If it just stabilizes, we should see
21 an uptick in demand just because they have no more inventories
22 to deplete, so they're going to have to buy what they build.

23 Q. Mr. Lubin, have you participated in negotiations with the
24 committee and creditor constituencies in the case?

25 A. I have to some degree, yes.

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1 Q. Let's start with negotiations with the committee. Could
2 you describe for the Court the status of negotiations with the
3 committee over the restructuring.

4 A. I would say we've had two meetings within the last two
5 weeks, really the first two meetings we've had on any real
6 effort to discuss a plan, how a plan might be structured.
7 We're certainly far apart in terms of valuation, no question
8 about that. I would say we made some reasonable progress in
9 terms of perhaps creating a structure that would let us deal
10 with the gap of valuation to some degree, but we're not there.
11 I think that we had some productive discussions yesterday. But
12 we're certainly not there in terms of having a deal, but I
13 don't think there's any reason not to keep trying.

14 Q. From your perspective, is that process with the committee
15 at an impasse?

16 A. I don't think it's an impasse, but, clearly, we have a
17 wide gap in value.

18 THE COURT: Any further meetings been scheduled?

19 THE WITNESS: We have not yet, Your Honor, but we're
20 hoping to.

21 BY MR. STROCHAK:

22 Q. Was the committee at all reluctant to meet with the
23 debtors to discuss plan negotiations?

24 A. I would say the committee was not reluctant to meet but
25 the committee wanted to delay the meetings until it felt that

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1 SRR had all the information, absolutely all the information it
2 felt it needed in order to give them the best advice it could
3 on valuation. We have no argument with that, but we do believe
4 that we could have begun the discussions earlier as the
5 forecasts essentially came out as we told them it would, and we
6 believe that the pieces that they're most -- the pieces where
7 the information is most delayed, essentially the automotive OEM
8 businesses, really are not going to change in terms of value.
9 Because, as I said, they're at the floor of their value in our
10 minds. They're at the value which they could be wound down, in
11 our minds. And the fact that that forecast might well get
12 worse, as it did, was not going to have a major impact on
13 value.

14 Q. Has the company had any negotiations with asbestos
15 claimants?

16 A. Well, we have. I've not participated directly with them
17 but I've had several discussions with the lawyers involved. I
18 know there have been discussions between your firm and the firm
19 that's been representing us over the years at the insurance
20 company's expense and the plaintiff's attorneys.

21 Q. And could you just give the Court a brief summary of where
22 things stand in those negotiations.

23 A. I believe we originally proposed that they receive a
24 treatment that limited their recovery to the recovery on
25 insurance. We've, I guess, agreed with them at this point,

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1 although I'm not sure they've signed off on this, that we would
2 modify that treatment to give them whatever recovery they're
3 entitled to through the insurance coverage and, then to the
4 extent there's a claim that can be proven above that amount,
5 that it would be treated as a general unsecured claim like all
6 the others, either paid in cash for a small amount or termed
7 out over a short period of time if it were a larger amount.

8 Q. Have the debtors in the past paid any liability on
9 asbestos claims?

10 A. I don't believe we -- we've actually paid anything out-of-
11 pocket. We've been completely covered by insurance. I'm not
12 sure we paid -- if we paid legal expenses up to a deductible,
13 frankly I don't know the answer to that. But that would have
14 been a long time in the past. But we have not been paying
15 anything out-of-pocket nor do we think there's any real
16 liability. But obviously, as we all know from following some
17 of the asbestos cases over the years, these are liabilities
18 that have to be dealt with.

19 Q. Mr. Lubin, are you responsible at all for the debtors'
20 efforts to obtain exit financing?

21 A. I've been involved in that quite directly, yes.

22 Q. And could you provide the Court with a status report, so
23 to speak, or what is the status of the debtors' negotiations on
24 exit financing?

25 A. Well, we're still talking with Capital One Business

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1 Credit. I believe that's their name. They continue to
2 indicate that they're extremely interested and that they're in
3 fact in business and doing new deals. We have talked to them
4 over an extended period of time. I think they like the
5 company, I think they like the business, I think they like the
6 management. And they have completed -- they received
7 appraisals of the real estate and the equipment that would form
8 a portion of their collateral. They and we are satisfied with
9 those. They've completed their field audit work with respect
10 to the current asset collateral, the receivables and
11 inventories, and they've received a preliminary report with
12 respect to the appraisal of the inventory on liquidation. And,
13 you know, frankly, they're not satisfied with that report and
14 we're not satisfied with that report. It does create a gap
15 which is a gap we would have to bridge, and we're working on
16 that. But we believe we can convince them and convince the
17 appraiser that their appraisal was way below the true
18 liquidation value and that really that appraisal is driven by
19 the conditions that were put on the way this could be
20 liquidated. We actually believe that there would be no problem
21 liquidating that inventory for at least its cost and probably
22 more, and they've applied some methodologies that -- you can
23 understand them but they really don't make sense in the real
24 world, that suggest a lot of that inventory would not even
25 count.

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1 Q. What --

2 A. But I would say the gap is probably now under a million
3 dollars, and we've already gotten the appraisal increased by
4 \$700,000. We've gotten the bank to acknowledge some of the
5 expenses that were counted in this appraisal were duplicative
6 and would not count such that we've already bridged a portion
7 of the gap, and we believe we'll get that taken care of.

8 Q. What's the implication of the inventory appraisal for
9 availability under the exit financing?

10 A. Well, I'd say at this point we're probably short by
11 something a little bit -- it reduces the availability by
12 something a little bit under a million dollars.

13 THE COURT: What's the amount of exit financing
14 you're looking for? My recollection is from prior hearings it
15 was \$40 million.

16 THE WITNESS: I think it's probably something less,
17 Your Honor, probably about 35 million in total and probably
18 using about 30 million initially. And this is a gap of a
19 million. And we understand that we may have to bridge that gap
20 if we can't convince them. We're working on that and believe
21 we will be able to accomplish that, but obviously what we'd
22 like to do is have them, in this marketplace, as comfortable as
23 they can possibly be with the value of their collateral.

24 BY MR. STROCHAK:

25 Q. Has Capital One given you any indication that due to, you

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1 know, conditions in the credit markets, they're not prepared to
2 continue to proceed toward an exit financing?

3 A. Actually not. Quite the contrary. They're in contact
4 with us on a regular basis. They were the ones who came to us
5 and said you need to work with the appraiser on the inventory
6 appraisal, this doesn't look right to us. And, in fact, we're
7 setting up, we hope, a face-to-face meeting with the appraiser
8 to run through the details because we think we can get that
9 nailed there. But they tell us they're in business, they like
10 this. They've indicated that they would like our permission to
11 go out and begin to talk to participants [indiscernible] at the
12 size of this financing. They would need a participant. We've
13 told them we're good with you going out and doing that. We
14 suggested they wait till we finalize the new forecast package
15 because Mr. Wilhouse is pulling that together right now. But
16 that should be done end of this week, early next week, and we
17 think they're going to be gin to talk to people.

18 THE COURT: Mr. Strochak, remind me, I -- we earlier
19 had a hearing and I approved reimbursement of expenses for due
20 diligence for lender. I thought it was Wachovia then. Was it
21 Capital One? It was Capital One?

22 MR. STROCHAK: I believe it was Capital One.

23 THE COURT: Okay. All right. Thank you.

24 THE WITNESS: That's correct, Your Honor. It's
25 Capital One.

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1 BY MR. STROCHAK:

2 Q. Mr. Lubin, let me switch gears a little bit and I wanted
3 to ask you about your sense of what a denial of exclusivity,
4 what implications that could have for Lexington's business.
5 And so let me start this way. As a general matter, do you
6 believe that your customers are sensitive to Lexington's
7 financial position and its path through the reorganization
8 process?

9 A. I think in this day and age any customer, and particularly
10 in the automotive business, is very nervous about any company
11 that's involved in a reorganization procedure or in financial
12 distress. I'd say pretty soon that may be their entire supply
13 base the way things are going. But they're very sensitive.
14 There are a number of customers that have policies about
15 granting new business to companies in Chapter 11 or in a
16 forbearance arrangement of some kind.

17 I think that the customers feel we're a good supplier
18 because the way the company is operated, the kinds of services
19 we provide them. I think it's why in at least two of our --
20 our two principal business lines right now we're making we
21 think extraordinary margins. And we're able to do it because
22 we're that good a supplier. But clearly we will be, to a
23 substantial degree, on new business hold for these people until
24 we get this resolved.

25 I think that anything that represents a disruption or

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1 a potential disruption to the way the company is run or the
2 possibility that the company might not be around in the future,
3 might be broken up, might be sold can only have a detrimental
4 effect on people saying I think I need to re-source some of
5 this. We're a very big supplier of the rubber commodities we
6 make. We have huge market shares with a lot of the customers.
7 And as a result they're particularly sensitive to the fact that
8 we are in a reorganization proceeding and they don't know how
9 it's going to come out. And as much as we try to reassure them
10 that the business will be here one way or another, it just
11 doesn't make them comfortable.

12 A lot of them are big companies, just have policies
13 that are doctrine and you can't change them. But that's the
14 reality. We think the only thing that -- I can't guarantee
15 we'd lose business, I can't guarantee this business we'd be --
16 we would be granted but clearly won't get. But I think it can
17 only have a detrimental effect to have a potential disruption
18 and potential chaotic situation here.

19 Q. Let me ask about a matter that Mr. Wilhouse touched on.
20 Just from your perspective, Mr. Lubin, what is the status of
21 the debtor-in-possession loan?

22 A. Well, I think -- I don't think Mr. Wilhouse intentionally
23 made a misstatement, but the debtor-in-possession loan was
24 drawn day one or half of it was drawn day one, half of it was
25 drawn as soon as the final order was entered in accordance with

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1 the orders. It's in the bank. It's earning interest. But
2 it's really there to give comfort to the suppliers and the
3 customers that we're going to be able to meet our obligations.
4 The hope was never to have to draw it, although we had some
5 indication in some of the forecasts that we might. But we
6 don't believe that that's the real issue. The real issue is
7 the -- to give them confidence that we're going to be running
8 this business successfully and continue to supply them.
9 Because that's when they get panicked.

10 THE COURT: What's your debt cost on the debt?

11 THE WITNESS: We're paying 7 over LIBOR with a 10
12 percent floor, Your Honor.

13 THE COURT: And you're earning a half a percent?

14 THE WITNESS: I think it's 3 percent. I -- I know
15 it's at least that but I'm not sure if they raised that.

16 BY MR. STROCHAK:

17 Q. Mr. Lubin, let me go back, if I could, to the projection
18 process and the re-forecasting process. Could you just
19 generally describe for the Court the types of items that SRR
20 has identified to the debtors in scrubbing the projections.

21 A. I would say SRR, number one, wanted to see a tie of the
22 OEM business forecast to the industry data, which I believe we
23 provided to them. We think it ties properly. The other piece
24 that they focused on was individual items of sales, individual
25 parts, and they questioned not necessarily car and part numbers

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1 but -- I know there were a couple of items where they indicated
2 they thought these projected items of business were
3 speculative. In some cases we agreed with them and said we
4 think you're right, we should pull those out of the forecast.
5 In other cases we disagreed with them. In certain cases we
6 said perhaps we're too aggressive on the volumes, maybe we've
7 assumed that we're going to be sole sourced on this part, more
8 likely we'll be a 50 percent source, and we made adjustments
9 that reflected those kind of change. I wouldn't say we agreed
10 with everything they said but I would say they pointed out some
11 items that were perhaps questionable, and we determined that it
12 was more conservative to pull those items out or reduce them.

13 Q. Let me direct you back, if I could, to Exhibit 4 for a
14 moment. That's the data list. I was just looking over the
15 list in late August, and I did not see anything that
16 corresponded to the backup information on the connector seals
17 forecast. And I was just -- I just wanted to confirm that in
18 your view that this information was in fact provided to SRR.

19 A. I thought that it was provided late August. Frankly, we
20 thought it had been provided in July with the other backup
21 information. But we're working through a third party, and I
22 wouldn't say there isn't some miscommunication. It's entirely
23 possible. But I believe it was provided in late August. We
24 provided the similar backup at the same time we provided the
25 new forecast that reflects the new car builds.

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1 MR. STROCHAK: Thank you.

2 Your Honor, I'll pass the witness.

3 THE COURT: Thank you. Let's take a ten-minute
4 recess before cross-examination.

5 MR. BRACHT: Thank you, Judge.

6 THE COURT: Is counsel for IFL here?

7 (Recess was taken.)

8 THE COURT: All right, Mr. Lubin, you're still under
9 oath. Mr. Bracht, cross-examination?

10 MR. BRACHT: Thank you, Your Honor.

11 CROSS-EXAMINATION

12 BY MR. BRACHT:

13 Q. Mr. Lubin, Mr. Strochak took the words right out of my
14 mouth with respect to Exhibit 4. I also didn't find anything
15 in September at all that dealt with the backup detail for
16 Vienna. But I would like to again, just maybe to put a close
17 on this issue, to point you to the entries that are dated up at
18 about, what, sixth or seventh entry down from the top, 10/20
19 entry, labeled Vienna Sales Support, dated provided 10/20/2008.
20 Do you see that, sir?

21 A. Yes, I do.

22 Q. Do you believe that to be correct?

23 A. Yes. I believe that's sales support for the updated
24 forecast. That was delivered the same day.

25 Q. You were talking about this issue of exclusivity. I'm

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1 curious, have you actually had a conversation with a customer
2 that has indicated to you that if you don't get exclusivity
3 extended, that they're going to take business away from you?

4 A. No.

5 Q. You indicated that the liquidation value -- that the value
6 of connector seals is basically its liquidation value? Did I
7 hear you say that correctly? Did I hear that correctly?

8 A. I think I said wind-down value, yes.

9 Q. Wind-down value? So is -- does that mean that the
10 liquidation value of connector seals, in your view, is the same
11 as the going concern value?

12 A. I would say it's in the same range, the 10 to \$11 million
13 range --

14 Q. Okay.

15 A. -- as the going concern value that was built into the
16 valuation report, yeah.

17 Q. Okay. We talked a lot about revisions to projections.
18 But in a way it's a little bit irrelevant from your point of
19 view. Because, as I understand the W. Y. Campbell report, the
20 debtors' valuation is premised upon 2008 operating results; is
21 that correct?

22 A. That's correct.

23 Q. And that changes in the projections, as far as Campbell is
24 concerned, would have no effect on valuation.

25 A. Well, I would say that if Campbell believed that all of a

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1 sudden the after market business was going to head south
2 instead of north, that the medical business was going to head
3 south instead of north, that might change their view on the
4 multiples that would be applied to the business. So I wouldn't
5 say totally irrelevant, but I believe that, given their belief
6 that those businesses should be growing and in the case of
7 medical very significantly, I don't think those forecasts in
8 total would have any significant impact on their valuation.

9 Q. Okay. I'm not sure if that's responsive to my question.
10 But let me just quote to you from the debtors' reply to the
11 objection of the official committee of unsecured creditors to
12 Motion for an Order Pursuant to Section 1121(d) of the
13 Bankruptcy Code, further extending the exclusivity periods
14 filed in this court. And in those papers -- let me just quote
15 to you and ask you if you agree.

16 At the bottom of page 2, the sentence starts,
17 "Further, as the Court will see at the confirmation hearing,
18 the debtors' valuation is premised upon 2008 operating results
19 rather than on a forecast of earnings and cash flows for future
20 years: Any improvement in business based on the 'hope that
21 market and economic conditions get better' would have no effect
22 on the valuation and is not necessary for the confirmation of
23 the debtors' plan."

24 Do you agree with those statements made by your
25 counsel in this case?

Lubin - Cross

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1 A. I do, but I would premise it the same way, that if
2 Campbell believed that the medical business was in fact going
3 to be seeing reduced sales and reduced profitability, they
4 might accord a different multiple. But I don't think they're
5 seeing that in '08.

6 Q. In fact, even with the revised projections that we've
7 talked about, Campbell has not intending to do a revised
8 valuation report, correct?

9 A. At the moment they haven't been requested --

10 Q. Right.

11 A. -- but I'm sure they will be by the time we get to
12 confirmation, yeah.

13 Q. Okay. So at this point in time, as I understand it,
14 you've not requested them to do that, correct?

15 A. No.

16 THE COURT: What's -- I haven't -- it's in evidence
17 just presented today, I haven't looked at it. What's the
18 methodology that Campbell is using, using a multiple of 2008?

19 THE WITNESS: Yes, Your Honor. I would say that
20 they're --

21 THE COURT: Multiple on EBIDA or what's the
22 methodology?

23 THE WITNESS: They're looking each piece of the
24 company and they are applying a multiple that they believe is
25 appropriate to the adjusted EBIDA for this year. Except in the

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1 case of businesses where clearly the wind-down value is greater
2 than the going concern value, they're applying the wind-down
3 value.

4 BY MR. BRACHT:

5 Q. Just to make clear that -- make sure that we're all on the
6 same page, and we can look at it if we need to but I know
7 you're familiar with it. Campbell has done various different
8 methodologies or used various different methodologies in its
9 report from discounted cash flow to comparable company to
10 comparable transaction, and ultimately -- and also they did
11 what they apparently have decided is the most logical or best
12 indication. They've done a sum of the parts valuation, and
13 that's the number that everybody seems to talk about. It's
14 about 115 or \$120 million number, correct?

15 A. Somewhere in there.

16 Q. Yeah. And that's a technique where what they've done is
17 they have taken each segment of the business and applied a
18 different multiple to each segment and then taken, in essence,
19 an average or a prorated proportion of blending of those
20 multiples applied to the 2008 expected EBIDA based on your
21 forecasts, correct?

22 A. That's correct.

23 Q. Okay. And one piece of that analysis with respect to the
24 sum of the parts is that they don't apply any corporate
25 overhead to that value, correct?

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1 A. That's correct.

2 Q. Right. And my understanding is that, as far as you are
3 concerned, your intention would be to continue to operate this
4 company in the future, right?

5 A. That's correct.

6 Q. You're not intending to sell this company, to break it up
7 into parts and sell it.

8 A. Not tomorrow, but I would say at a point in time in the
9 future probably.

10 Q. All of it or some of it?

11 A. Probably all of it.

12 Q. Okay. How far in the future?

13 A. I don't have an answer to that, but I'd say when we
14 believe we can provide maximum value to all constituencies.

15 Q. Okay. Let's talk a little bit about the industry. Now,
16 in listening to your testimony and Mr. Wilhouse's testimony,
17 I'm getting the impression that, for reasons that are beyond my
18 ken, that the after market, automotive after market business is
19 not part of the automotive industry or is somehow different?

20 A. Did someone say it's not part of the automotive industry?

21 Q. Well --

22 A. I can't believe that's possible.

23 Q. It's true, is it not -- I mean and we don't -- not to
24 state the obvious but that the automotive industry as a whole
25 has fallen on really hard times.

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1 A. The automakers, people who are making new cars I would say
2 have fallen on about as hard times as you possibly can fall on.

3 Q. Did you happen to read the USA Today today? This morning?

4 A. I did not.

5 Q. Did you see the article -- that's about as sophisticated
6 as I get, Mr. Lubin. But there's an article at the very top of
7 the fold, top of the front that says auto parts suppliers are
8 in dire straits. My point is is that the impact of the
9 automobile --

10 THE COURT: Are you testifying now, Mr. Bracht?

11 MR. BRACHT: I wish I had that article, Your Honor,
12 but I don't.

13 THE COURT: I'm not sure you'd get it in, but that's
14 (inaudible).

15 MR. STROCHAK: I object to the article. It hasn't
16 been offered, Your Honor.

17 BY MR. BRACHT:

18 Q. But the point, Mr. Lubin, is the automotive industry as a
19 whole is hurting, we all know that, and the after market part
20 of that industry -- the after market part is part of that
21 industry, is it not?

22 A. It's part of the automotive industry --

23 Q. It is.

24 A. -- but it's driven by totally different economic forces --

25 Q. Right.

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1 A. -- than the forces that are driving the results of people
2 making parts for new cars and people making new cars.

3 Q. Right.

4 THE COURT: Would you like to see my repair bills for
5 my old cars?

6 MR. BRACHT: Well, I bet you, Your Honor -- I'll be
7 happy to look at them but I'll betcha they don't include an
8 insulator.

9 THE COURT: I wouldn't bet on it.

10 MR. BRACHT: How old is your car?

11 THE COURT: Old enough.

12 BY MR. BRACHT:

13 Q. It may be true that the after market part of this business
14 has not been impacted as bad as the OEM business but it's still
15 been impacted in a negative way, hasn't it?

16 A. I couldn't speak to that because our business is up and
17 it's up substantially.

18 Q. Okay. So -- and your business apparently, your after
19 market business is different than every other after market
20 business that we've looked at and that W. Y. Campbell has
21 looked at in terms --

22 THE COURT: Mr. Bracht. Mr. Bracht.

23 MR. BRACHT: I'm sorry, Your Honor.

24 THE COURT: Let's -- you know, before Mr. Strochak
25 even has to get up to --

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1 MR. BRACHT: Okay.

2 THE COURT: -- object, let's confine yourself to real
3 questions --

4 MR. BRACHT: Thank you, Your Honor.

5 THE COURT: -- not your testimony.

6 MR. BRACHT: Thank you.

7 BY MR. BRACHT:

8 Q. Have you studied the trends in multiples that have taken
9 place in the industry, including the after market industry,
10 since even starting in August of '07 and even as recent as
11 March of '08?

12 A. I have not.

13 Q. Okay. And you couldn't tell me then what those trends are
14 in the after market industry.

15 A. I could not.

16 Q. Okay. As I understand what has occurred over the six
17 months or so since we've started this process, do you recall in
18 March of '08 that you indicated in a letter to the, at that
19 point the ad hoc committee that the enterprise value of the
20 combined company would be approximately \$100 million?

21 A. I don't recall that.

22 Q. You don't recall that?

23 A. No.

24 Q. Okay. Let me show you what's been marked as Exhibit T.

25 MR. STROCHAK: I thought we had an understanding of

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1 this document, Your Honor. I do have an objection to Exhibit
2 T.

3 THE COURT: Can I look at it first?

4 MR. STROCHAK: Absolutely, yeah.

5 [Pause in proceedings.]

6 THE COURT: Well, Mr. Bracht, certainly he can't ask
7 questions about the contents of it till he's tried to lay a
8 foundation for it but --

9 MR. BRACHT: Well --

10 THE COURT: -- I don't think you have a basis to
11 object yet.

12 MR. BRACHT: Your Honor, I'm not offering it to show
13 that an offer was made or that any settlement proposals were
14 made. I'm offering it simply for impeachment or refresh the
15 witness's recollection. And --

16 THE COURT: Tell me what the document is.

17 MR. BRACHT: Your Honor, this is a --

18 THE COURT: I see where it says, "confidential for
19 settlement discussion purposes only."

20 MR. BRACHT: This is a proposal that was made by
21 Lexington to the ad hoc committee back in March of 2008.

22 THE COURT: So why doesn't Rule 408 preclude you from
23 questioning on this document?

24 MR. BRACHT: Why does it?

25 THE COURT: Yeah, why does it not -- why are you able

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1 --

2 MR. BRACHT: Because I think Rule 408, Your Honor, is
3 meant to prevent a determination or discussion or evidence
4 concerning the fact that offers had been made or proposals had
5 been made, and I'm not offering it for this purpose. I'm
6 offering it simply to establish that Mr. Lubin indicated back
7 in March that the company -- he thought, given the various
8 offers that had been made, that the company was worth \$100
9 million.

10 MR. STROCHAK: Your Honor, I think that's classic use
11 of 408 information for an improper purpose.

12 THE COURT: Objection sustained.

13 MR. BRACHT: I can't use it to refresh his
14 recollection, Your Honor, but --

15 MR. STROCHAK: There's been no foundation of a
16 failure of recollection, Your Honor.

17 MR. BRACHT: I just dis -- well, I'll ask you.

18 BY MR. BRACHT:

19 Q. Did you -- do you recall stating that in a proposal --

20 THE COURT: In a settlement meeting?

21 MR. BRACHT: Excuse me?

22 THE COURT: In a settlement meeting?

23 MR. BRACHT: No. In this letter.

24 THE COURT: Well, this is a -- objection sustained.

25 Go on to your next question.

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1 MR. BRACHT: Okay.

2 THE COURT: This specifically says it's for
3 settlement discussion purposes only.

4 MR. BRACHT: Okay. Let me move back --

5 THE COURT: If you've got something outside of
6 settlement discussions where you say he used that number, go
7 ahead and ask about it and maybe you could use it to refresh
8 recollection, but you can't use the -- objection sustained.

9 MR. BRACHT: All right, Your Honor. I'll move back a
10 little in time.

11 BY MR. BRACHT:

12 Q. Let's go back to December of '07. That was a point in
13 time when the company was trying to -- was soliciting offers
14 for the sale of the company, either in whole or in part,
15 correct?

16 A. Yes.

17 Q. And the company had received various letters --
18 indications of interest over that process.

19 A. Yes.

20 Q. And W. Y. Campbell prepared a chart that indicated that --
21 it was called an analysis of various sale transactions. It was
22 dated December 13th of '07. Do you recall that?

23 A. I do.

24 Q. And do you recall that in that chart that there was two
25 analyses of the value of the company based on selling all of

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1 the company and not just a part of the company?

2 A. Well, they're -- I believe they're analyses of the value
3 based on the offers we'd received for the entire company.

4 Q. Right.

5 A. Yes.

6 Q. And two of those offers were for to buy all of the
7 company.

8 A. Yes.

9 Q. Okay. And do you recall that the offer -- the indication
10 of interest, as far as W. Y. Campbell indicated, the Parker
11 LRG-1 -- that's the Lexington Rubber Group, Inc., that the
12 total value of that transaction was just over \$91 million?

13 A. I don't remember the number but that's very possible.

14 Q. Let me --

15 MR. BRACHT: Your Honor, it's Exhibit S.

16 [Pause in proceedings.]

17 THE COURT: Okay.

18 BY MR. BRACHT:

19 Q. The two on the far -- the very first two that are listed,
20 the Parker offer and then I believe the Watermill offer, those
21 were for all of the company, correct?

22 A. All of the rubber group.

23 Q. Right. And all -- and that was roughly, those two offers
24 were basically in the 90 million, 90 to \$92 million range?

25 A. Well, when you got done with the taxes, the ultimate

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1 value, because of the structure of that offer, was in that
2 range, yeah.

3 Q. I'm sorry, was what?

4 A. When you got done with taxes, because of the structure of
5 that proposal, the net value remaining was approximately \$91
6 million, that's correct.

7 Q. Okay. All right. And today, approximately ten months
8 since December of '07 and in the midst of the difficulties
9 experienced, that we all agree experienced by the automotive
10 industry, the value today that your adviser has put on this
11 business is somewhere in the 115 to \$120 million range?

12 A. I would say that that's not necessarily comparable to this
13 value. This was an offer that the company did not accept, was
14 not prepared to accept. But I would say yes, that the range is
15 somewhere in that -- the number is somewhere in that range of
16 value.

17 Q. Yeah. Basically more than a 20 percent increase over the
18 last ten months.

19 A. Maybe, yeah. Again, that wasn't an offer that was
20 accepted. I think if you look at the other proposals that were
21 made and the ones that the company wanted to accept, in fact
22 the values were greater.

23 Q. Right. And one of those actually is -- that is listed
24 there, the Trowberg [Ph.] offer.

25 A. That's correct.

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1 Q. Okay. And that was the offer that was a part of the March
2 10th proposal that we talked about, right?

3 THE COURT: The objection has been sustained on the
4 March 10th proposal, Mr. Bracht.

5 THE WITNESS: I don't remember.

6 MR. BRACHT: I'm not asking him anything.

7 THE WITNESS: I -- I don't remember.

8 THE COURT: You -- Mr. Bracht --

9 Just a second.

10 Mr. Bracht, don't step over the bounds. I've
11 precluded you from dealing with the March 10th --

12 MR. BRACHT: So I can't talk about it at all --

13 THE COURT: That's right, you can't.

14 MR. BRACHT: -- not even with respect to that
15 document.

16 THE COURT: That's right, you can't.

17 MR. BRACHT: Okay. Thank you, Your Honor.

18 BY MR. BRACHT:

19 Q. And this is in a time when, according to your lawyers,
20 that the economy has been in a free fall. Do you agree with
21 that statement?

22 A. I wouldn't --

23 MR. STROCHAK: Objection, Your Honor. I'm sorry, I
24 didn't quite understand the time period. Are we talking about
25 December or currently.

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1 THE COURT: Overruled.

2 Do you understand the question?

3 THE WITNESS: (No audible response.)

4 THE COURT: Ask another question. He said he didn't
5 understand it.

6 THE WITNESS: I don't know what it is I'm answering
7 happened as a result of this free fall that I -- I wouldn't
8 make that characterization.

9 BY MR. BRACHT:

10 Q. Okay. Well, in fact your -- let me just ask you if you
11 agree with this statement that's contained in the same document
12 I quoted from earlier. It's in paragraph two. It's in the
13 middle of the paragraph. It says, "Since early September --"

14 THE COURT: Which document are you looking at?

15 MR. BRACHT: I'm sorry, Your Honor. It's the
16 objection 1 that I was referring to earlier.

17 THE COURT: All right. Go ahead.

18 BY MR. BRACHT:

19 Q. "Since early September the economy has been in a free
20 fall, and it shows little signs of improving any time before
21 February 25th, 2009."

22 Do you agree with that statement?

23 A. Since September. I guess that's probably a pretty fair
24 statement given what's going on [inaudible].

25 Q. You mentioned and talked a little bit about the exit

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1 financing. Do you remember at our last hearing with respect to
2 exclusivity was on July the 29th? Does that sound about right?

3 A. Sounds close enough to me.

4 Q. Okay. And do you recall that at that hearing you had or
5 Lexington had what I'm going to refer to as a letter of
6 proposal from Capital One Bank?

7 A. That's correct.

8 Q. Dated, actually dated July 29th of 2008.

9 A. I'm not sure of the date, but.

10 Q. Let me show you Exhibit N. Is that the letter of
11 proposal?

12 A. We've had several from them over time, but this looks like
13 the one to me.

14 Q. And if you'll turn to -- (Pause). If you'll turn to --
15 let me see what page it would be. It's the ninth page.

16 A. Okay.

17 Q. Do you see the expiration date, it shows that the proposal
18 letter expires on August 31, 2008?

19 A. (No audible response.)

20 Q. And you've not received another proposal letter; is that
21 correct?

22 A. No.

23 Q. You had nothing in writing from Capital One regarding exit
24 financing.

25 A. Nothing further than this.

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1 Q. Just a couple of questions about this inventory issue. I
2 mean you're not suggesting that you're a million dollars parked
3 with Capital One and that if you bridge that gap that you're
4 going to get your exit financing?

5 A. We believe we will, yeah.

6 Q. The earlier indications were that Lexington felt like that
7 the inventory was worth 12 million and that the appraisal had
8 come back at five; is that correct?

9 A. That's correct.

10 Q. With respect to asbestos, I've looked at your public
11 filings. There's been no public disclosure of any potential
12 claims or exposure or liability with respect to asbestos
13 claims?

14 A. I think that's correct.

15 Q. Okay. And you have indicated in the past, haven't you,
16 that the company in fact has no exposure?

17 A. We don't believe the company is liable for these claims,
18 no.

19 Q. All right. And you believe that if there is any exposure,
20 that insurance would cover it

21 A. That's correct.

22 Q. Okay. Have you or the debtors sought to estimate the
23 asbestos claims?

24 A. No, we've not.

25 MR. BRACHT: I'll pass the witness, Your Honor.

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1 THE COURT: Mr. Lubin, in Exhibit N on the first page
2 it indicated that the proposed senior secured credit facility
3 was 39 and a half million. I think I asked you earlier about
4 the amount of exit facility. I think you said 35 million.

5 THE WITNESS: I --

6 THE COURT: Did they advise you that they were
7 reducing the amount?

8 THE WITNESS: No, Your Honor. I just recalled the
9 number badly. It happens in my old age occasionally.

10 THE COURT: Okay. Thank you.

11 Any further redirect?

12 MR. STROCHAK: Just a couple, Your Honor. Thank you.

13 THE COURT: Let me just ask before you begin.

14 Are you offering any of your exhibits, Mr. Bracht?

15 MR. BRACHT: Your Honor, exhibit, I think Exhibit N
16 is -- you do a better job than I do.

17 THE COURT: Well, you know, that's -- I really prefer
18 before you sit down from examining if you want to move
19 exhibits. I don't like to have to catch up with it later or --

20 MR. BRACHT: Okay. Yes, I would like to offer
21 Exhibit N, Your Honor.

22 THE COURT: What about S? You examined on S as well.

23 MR. BRACHT: Oh, yeah, sure. Exhibit S as well.

24 THE COURT: Do you have any objections to S or N?

25 MR. STROCHAK: No, Your Honor.

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1 THE COURT: All right.

2 MR. BRACHT: Thank you, Your Honor.

3 THE COURT: Committee's Exhibits N and S are in
4 evidence.

5 (Committee Exhibits N and S, Received.)

6 THE COURT: Go ahead, Mr. Strochak.

7 REDIRECT EXAMINATION

8 BY MR. STROCHAK:

9 Q. Mr. Lubin, let me ask you to pick up Debtors Exhibit 3 in
10 evidence, which is the valuation, the draft valuation report.
11 And just to clarify a couple of points, if you turn to page 38
12 there's a section entitled "Conclusion of Valuation of the Core
13 Assets."

14 A. I see it.

15 Q. Could you just explain for the Court what Lexington
16 considers to be its core assets, just in general terms.

17 A. In this valuation we viewed the core assets as the
18 businesses that were clearly going to be part of the going
19 company, that is the rubber group and the corporate office and
20 the NOLs that would potentially shelter the profitability of
21 the rubber group.

22 Q. Now, Campbell reached its conclusions, in this draft
23 report anyway, on four different valuation methods, correct?
24 And those are the four set forth in the middle of page 38?

25 A. Well, I would say they applied four different

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1 methodologies to that and reached valuation conclusions. But
2 when they got done evaluating, then they selected one method
3 as, in their mind, being the most accurate method.

4 Q. And which method was that, sir?

5 A. That was what we call the sum of the parts method.

6 Q. And Campbell's conclusion on the valuation on sum of the
7 parts was roughly \$111 million, correct?

8 A. That's correct.

9 Q. And then Campbell also performed a valuation of noncore
10 assets, correct?

11 A. Yes. Yes, they did.

12 Q. And what are -- what's Lexington's view of what the
13 noncore assets are?

14 A. Well, the noncore assets are certain pieces of real estate
15 and certain receivables that are -- certain pieces of real
16 estate that are not part of the going business and certain
17 receivables that we have basically from bankruptcy proceedings
18 that are not valued on the books. Perhaps properly so. The --

19 THE COURT: These are claims you have in other
20 companies --

21 THE WITNESS: Yes, Your Honor.

22 THE COURT: -- that are reorganization?

23 THE WITNESS: Yes, Your Honor.

24 But basically it's the real estate that is held for
25 sale and it's the metals business, which at that point in time

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1 Campbell advised us they felt should not be viewed on a going
2 concern basis but should be viewed as a, in effect,
3 liquidation.

4 BY MR. STROCHAK:

5 Q. And then turn, if you would, to page 46 of Exhibit 3.
6 Page 46 is Campbell's preliminary conclusions on the value of
7 the noncore assets, correct?

8 A. That's correct.

9 Q. And that's 13.2 million, roughly, correct?

10 A. That's correct.

11 Q. So if we add core and noncore together, we get a total
12 value, at least on this preliminary basis, of 124 if I did the
13 math right?

14 A. Close enough.

15 MR. STROCHAK: Thank you, Your Honor. No further
16 questions.

17 THE COURT: Thank you.

18 Further cross?

19 MR. BRACHT: No, Your Honor.

20 THE COURT: Thank you. Witness is excused. Thank
21 you very much, Mr. Lubin.

22 Mr. Strochak, any further witnesses?

23 MR. STROCHAK: No, Your Honor. That's our final
24 witness. Thank you.

25 THE COURT: Okay. Does the debtor rest?

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1 MR. STROCHAK: We do, Your Honor. I'm sorry.

2 THE COURT: Mr. Bracht?

3 MR. BRACHT: Yes, Your Honor.

4 THE COURT: You have a witness you're going to call?

5 MR. BRACHT: I do, Your Honor, Would you like to
6 proceed or -- I might be able to cut it down if I have a little
7 bit of a short lunch break and be able to kind of cut out some
8 of my questions that might be repetitive.

9 THE COURT: Okay. We'll take a lunch break. You
10 know, I have what I thought was going to be the first matter on
11 the calendar. There's some confusion about when it was going
12 to be heard. It's a 363 sale. There have been no objections
13 filed, so I expect it will be short. So they're going to come
14 back at 2 o'clock. How long do you -- do you have an estimate
15 of how long you -- you have one witness, right?

16 MR. BRACHT: I have one witness, Your Honor, and I
17 think in light of what's been said today and kind of the way
18 things have gone, it will be I think probably 30 minutes maybe,
19 maybe 45 at the most but certainly no longer than that.

20 THE COURT: Okay. My suggestion is why don't you
21 come back at 2:15. I'll hear the other matter at 2 o'clock and
22 we'll resume, we should be able to resume testimony at 2:15.
23 Mr. Silverstein looks like he has something he wants to suggest
24 to you.

25 [Pause in proceedings.]

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1 MR. BRACHT: That will be fine, Your Honor.

2 THE COURT: Okay. Now, with respect to -- you know,
3 once the evidence is closed I'll hear argument from both sides
4 on this. We obviously have something you all care about a lot,
5 your fee applications, which are on for today as well. There
6 have been no objections filed but I don't know whether the U.S.
7 Trustee will -- what the U.S. Trustee will have to say.

8 UNIDENTIFIED SPEAKER: Your Honor, the U.S. Trustee
9 has taken a position, and that is that they requested a 5
10 percent holdback, and we both agreed to that.

11 THE COURT: Well, let me just say that with respect
12 to the committee's counsel, you didn't give us the backup for
13 the expenses. You had just a brief summary schedule and none
14 of the backup.

15 UNIDENTIFIED SPEAKER: We certainly have it.

16 THE COURT: That's fine, but you have to give it to
17 me. So I will -- I'll hear -- hopefully I don't think, if no
18 one filed any objections, if the U.S. Trustee -- I think Mr.
19 Schwartzberg assume that was what he was here for, so. He's
20 left but we'll go ahead and take them but just so -- don't be
21 disappointed, I'm not going to rule on your application till I
22 get the backup data.

23 UNIDENTIFIED SPEAKER: That's fine, Your Honor.

24 THE COURT: Okay.

25 UNIDENTIFIED SPEAKER: That's fine.

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1 MR. TSENG: Oh. I was just going to speak --

2 THE COURT: You have to identify yourself.

3 MR. TSENG: I'm sorry. This is Conray Tseng for the
4 debtors. With regards to Weil Gotshal's fee application, we
5 have voluntarily reduced our fee application request by \$15,000
6 pursuant to discussions with the United States Trustee. We
7 also have a proposed revised order for the Court to reflect
8 certain changes that have been made for the requested amounts
9 in the proposed order we filed earlier with regards to SRR.
10 There were some typographical errors as to Exhibit A, and those
11 have been corrected.

12 THE COURT: Let me suggest this. If you've got
13 revised proposed orders, give them to my law clerks now. It is
14 my plan when we finish the evidence and argument on exclusivity
15 I will hear motions on fees. I have a few issues to -- you
16 know, that we have to raise but nothing earthshaking.

17 MR. TSENG: Obviously it's the Court's preference,
18 but we could do them now if the Court would prefer. If you'd
19 rather wait, obviously it's fine with us.

20 THE COURT: Well, Mr. Bracht, what do you want to do?
21 Do you want to -- well, it's 12:20. Let's break until --

22 MR. BRACHT: I'm not going to be a part of that, Your
23 Honor, so I can sit here and do my work while you're having the
24 hearing.

25 THE COURT: No, let's break now until 2:15. I'll

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1 hear the sale motion in the other case right at 2:00 and it
2 won't take very long. If you're -- it may not even take 15
3 minutes, so if you're ready to go we'll start as soon as I
4 finish that sale motion.

5 MR. STROCHAK: Thank you, Your Honor.

6 MR. TSENG: We'll be here at 2:00 and ready to go.

7 (Recess 12:22 p.m. to 2:01 p.m.)

8 THE COURT: All right, why doesn't counsel in
9 Lexington Precision, No. 08-11153, come on back up.

10 [Pause in proceedings.]

11 THE COURT: Mr. Bracht, call your first witness.

12 MR. BRACHT: Thank you, Your Honor.

13 THE COURT: First and only, right?

14 MR. BRACHT: My first and only witness, Your Honor.

15 Jesse Aultz called by the committee.

16 THE COURT: Why don't you stand and raise your right
17 hand.

18 (JESSE AULTZ, COMMITTEE'S WITNESS, SWORN.)

19 THE COURT: Have a seat, Mr. Aultz.

20 Go ahead, Mr. Bracht.

21 DIRECT EXAMINATION

22 BY MR. BRACHT:

23 Q. Mr. Aultz, you're with SRR; is that right?

24 A. Correct.

25 Q. What's your title?

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1 A. Manager.

2 Q. All right. And you're involved in working on the
3 valuation and other business concerning Lexington Precision?

4 A. That's correct.

5 Q. You and at least two other individuals at that firm have
6 been involved in working on that issue?

7 A. Right.

8 Q. Okay. And you were sworn in and testified in the last
9 hearing on July the 29th; is that correct?

10 A. That's correct.

11 Q. Okay. We've talked a lot about information. At the risk
12 of belaboring it, I want to ask you just a couple of questions.

13 A. Okay.

14 Q. With respect to the connector seal portion of this
15 business, did SRR receive, ever receive the backup information
16 that you requested with respect to the original plan?

17 A. With respect to the original plan we requested to receive
18 information about the type of business that was being
19 projected, whether it was booked or speculative or highly
20 likely, and we never did receive that for the original plan.

21 Q. Okay. That --

22 THE COURT: When you say -- the original plan or the
23 original --

24 MR. BRACHT: Original projection.

25 THE WITNESS: Original projection.

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1 MR. BRACHT: I'm sorry.

2 THE COURT: Thank you.

3 BY MR. BRACHT:

4 Q. Now, with respect to the revised projections on connector
5 seals, did you receive that type of information that you just
6 described?

7 A. We did receive it along with the revised projection on
8 October 20th.

9 Q. On October 20th of this year.

10 A. Yes.

11 Q. Okay.

12 MR. BRACHT: I want to move to Exhibit O. It's been
13 previously introduced, Your Honor. I have a few questions
14 about that.

15 THE COURT: Certainly. It's in evidence, go ahead.

16 BY MR. BRACHT:

17 Q. Mr. Aultz, will you identify Exhibit O, please?

18 A. Exhibit O is the comparison of forecasted results to
19 actual for each segment of the Lexington business for the
20 months June through August.

21 Q. Okay. And the presentation of this exhibit at the top is
22 the consolidated results?

23 A. Correct.

24 Q. And then what's the second box?

25 A. The rubber group.

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1 Q. And what does the rubber group include?

2 A. The rubber group includes the connector seals division,
3 insulators, medical, and technologies.

4 Q. Okay. And then the metals group is the additional part?

5 A. The metals group and the corporate group are added to get
6 to the consolidated.

7 Q. Okay. Now, the numbers --

8 THE COURT: Can I just ask a question?

9 You have rubber group and connector seals in separate
10 boxes. They're both part of the same group then?

11 THE WITNESS: The rubber group is composed of
12 connector seals, insulators, medical, and technologies. The
13 four segments below rubber group --

14 THE COURT: They roll into the --

15 THE WITNESS: Correct.

16 THE COURT: -- into the rubber group?

17 THE WITNESS: That's correct.

18 THE COURT: Okay. Go ahead.

19 BY MR. BRACHT:

20 Q. The numbers that are on Exhibit O, where do they come
21 from?

22 A. These come from the director's packages, which is the
23 monthly financial results provided by the company. Which is --
24 is the same as the monthly operating reports.

25 Q. And is Exhibit P the source documents for what's contained

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1 on Exhibit O?

2 A. Yes, that's correct.

3 MR. BRACHT: We would offer Exhibit P, Your Honor.

4 MR. STROCHAK: No objection, Your Honor.

5 THE COURT: Exhibit P is in evidence.

6 (Committee Exhibit No. P, Received.)

7 BY MR. BRACHT:

8 Q. Mr. Aultz, are the debtors hitting their forecasted
9 numbers?

10 A. They are not since the release of the five-year plan.

11 Q. How does this three-month snapshot that's contained on
12 Exhibit O, how does that compare to the debtors' historical
13 results regarding budget versus actual?

14 A. We have the 2000 -- I believe 2004 through 2007 budgets,
15 and in each of those years the company missed its projections
16 by approximately 30 to 35 percent at an EBIDA level. So --

17 THE COURT: So they're doing better now?

18 THE WITNESS: Theoretically through -- through
19 August. September changed a little again.

20 BY MR. BRACHT:

21 Q. All right. And through August, on a consolidated basis,
22 how far off are they?

23 A. On a consolidated basis through August, it's 18 and a half
24 percent below budget.

25 Q. You mentioned the September results. You've looked at the

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1 September operating statement?

2 A. We did receive that later in the day yesterday, and the
3 September results were, I believe, 50.4 percent below budget.

4 Q. If you add in the September results on a consolidated
5 basis, how far off are the debtors with respect to their
6 numbers?

7 A. 28 percent on a consolidated basis.

8 Q. And that would be on a four-month -- June through
9 September.

10 A. June through September, the first four months of the plan.

11 Q. Okay. Moving on to revised projections, just a few
12 questions there. We've heard and talked a lot about the fact
13 that the debtors had revised their projections in September and
14 October of this year; is that right?

15 A. That's correct.

16 Q. Okay. And you have reviewed those revised projections?

17 A. I have.

18 Q. All right. And let me show you what's been marked as
19 Exhibit R. Would you identify Exhibit R, please?

20 A. Exhibit R is a comparison of the insulators and medical
21 projections as they've changed over time.

22 Q. Okay. You've had conversations with the debtors
23 concerning these revised projections and with W. Y. Campbell as
24 well?

25 A. We have.

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1 Q. Okay. And what was your understanding, based on those
2 conversations, as to what was the catalyst for the revised
3 projections?

4 A. Some item --

5 Q. As shown on Exhibit R.

6 A. Some of the items have changed. We asked questions about
7 specific line items and what the backup was or the reasoning
8 for the projections, and some of those items had changed since
9 July when the plan had come originally. So they were making
10 projections to -- to account for those changes and to take out
11 some business that had been lost and add new business that they
12 were hoping to get.

13 Q. All right. So the reductions, as you're understanding,
14 were based on actual events, for lack of a better term?

15 A. Yes.

16 Q. And the additions that resulted in what we see on Exhibit
17 R were basically forecasts or projections in the future?

18 A. They were projections for new business, yes.

19 Q. Okay. Have you -- moving on. Have you done, you and NSR,
20 done an analysis of the multiple trends among comparable
21 companies in these industries that the debtor is involved in?

22 A. We have looked at the trends in multiples of comparable
23 companies in the medical business as well as the automotive
24 business.

25 Q. How are the multiples trending in the automotive business?

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1 A. In the automotive business over the last year the average
2 multiple is down about 50 percent. Over the last six months I
3 believe it's down about 40 percent.

4 THE COURT: Could you explain what you mean by the
5 average multiples are down?

6 THE WITNESS: Sure. If we look at a set of
7 comparable automotive companies, looking at companies that were
8 chose by us as well as W. Y. Campbell in their report, and look
9 at the average multiple of that comp set from, say, March 31st
10 to September 30th --

11 THE COURT: Multiple of what?

12 THE WITNESS: Enterprise value to EBIDA. Primarily
13 EBIDA multiples are what we were considering.

14 THE COURT: Okay.

15 THE WITNESS: The average multiple has declined about
16 40 percent over that time.

17 THE COURT: All right.

18 BY MR. BRACHT:

19 Q. In fact, you indicated that that analysis included both
20 sets of comparable companies, both in automotive and in
21 medical?

22 A. Correct.

23 Q. And including the W. Y. Campbell comparables?

24 A. Yes.

25 Q. And did it include companies, comparable companies in the

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1 after market industry or after market segment of the automotive
2 industry?

3 A. It did. It was OEM and after market companies.

4 Q. Okay. Did the multiples with respect to the after market
5 companies, did they show similar negative trends over a period
6 of time?

7 A. They did. The after market companies are also declining
8 at a significant rate at this point.

9 Q. Okay. And what about medical, what is being shown with
10 respect to multiples there?

11 A. Medical is less severe. Over the last six months to a
12 year the medical multiples are down on average 10 to 15
13 percent.

14 Q. Now, when the multiples of companies go down over time,
15 what does that indicate with respect to value?

16 A. That implies that, all else being equal, the value would
17 decline, assuming you're applying it to the same earnings
18 level.

19 Q. Okay. Now, how does that -- how does the trend that
20 you've analyzed with respect to the industries in question, how
21 does that negative trend compare to what you understand to be
22 management's view of the value of this company over time?

23 A. Our understanding from discussions with them is that they
24 believe the value is increasing.

25 Q. By what percentage? Approximately.

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1 A. I guess it's changed over time, maybe 10 to 20 percent in
2 the last six months.

3 Q. Okay. Would you consider that position to be inconsistent
4 or consistent with the industry trends that you've talked
5 about?

6 A. It seems inconsistent with what the market's showing.

7 Q. We've talked a bit about after market. Why is the after
8 market portion of this industry impacted by the same kind of
9 general malaise that is affecting the automotive industry as a
10 whole?

11 A. There are numerous factors that affect both the OEM and
12 the after market business. The after market business is
13 affected by the fact that if less cars are built, there's less
14 cars that need repairs down the line. The less cars on the
15 road is a negative impact. People are driving less given
16 prices of gas, and so the total miles on vehicles is declining,
17 which leads to fewer replacements. And then the average age of
18 vehicles could go up if production stays low, so that would be
19 an offsetting factor. So there are factors that goes both --
20 go both ways but in the marketplace the values of these
21 companies is declining.

22 Q. Is -- based on your analysis, is there any material
23 difference between the current multiples between the after
24 market industry and the OEM industry?

25 A. If we look at companies that are comparable, we don't

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1 believe there's a material difference in the multiple, assuming
2 they're comparable in the first place, which is always the
3 important point.

4 Q. Let me show you what's been marked as Exhibit Q. Could
5 you identify Exhibit Q, please?

6 A. This is a -- a comparable company trend over the last year
7 or so looking at enterprise value to EBIDA multiples.

8 Q. This is the work product of what you just testified to?

9 A. Yes. This is our industry snapshot.

10 Q. Okay. And this is something that SRR completed and it
11 indicates what their views are with respect to industry trends.

12 A. That's correct.

13 Q. Okay.

14 MR. BRACHT: Your Honor, we would offer Exhibit Q at
15 this time.

16 MR. STROCHAK: Your Honor, I don't have any objection
17 to being offered for the fact that SRR has performed this
18 analysis. I do have a problem with it being offered for the
19 truth of the matter asserted. I think it's properly the
20 subject of expert testimony and not appropriate for this
21 hearing for that purpose.

22 THE COURT: Mr. Bracht?

23 MR. BRACHT: Your Honor, we're offering it as in the
24 nature of expert or opinion testimony concerning the trends.

25 THE COURT: Objection sustained then. You didn't lay

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1 the foundation for this to be --

2 MR. BRACHT: Well --

3 THE COURT: -- as expert testimony. If you have a
4 more limited purpose, I'll take it but --

5 MR. BRACHT: Well --

6 THE COURT: -- this is not the valuation hearing.
7 This is not -- I'm going to sustain the objection for the
8 purpose if you're offering it as expert opinion on value.

9 MR. BRACHT: Your Honor, the -- this is not related
10 directly to value, and Mr. Aultz was qualified as an expert in
11 the last hearing.

12 THE COURT: Well, if you go back to the transcript of
13 the last hearing, I did not hear testimony -- I think I made
14 clear that I was not hearing testimony for purposes of
15 valuation. The objection is sustained.

16 MR. BRACHT: Your Honor, I would offer Exhibit R.

17 MR. STROCHAK: No objection, Your Honor.

18 THE COURT: Exhibit R is in evidence.

19 (Committee Exhibit No. R, Received.)

20 BY MR. BRACHT:

21 Q. Mr. Aultz, has SRR done a preliminary analysis of the
22 company's value?

23 A. We have done a preliminary analysis.

24 Q. And have you presented it to the company?

25 A. We did.

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1 Q. And you had discussions with the company about it?

2 A. We did.

3 Q. Is it your final analysis?

4 A. No, it is not.

5 Q. It may change?

6 A. It may change.

7 Q. And was this done at the company's request so we could
8 talk about values?

9 A. They asked for something in writing so that we could have
10 a discussion about values.

11 Q. All right. And in terms of what you -- and you presented
12 it to the company. In terms of what you preliminary concluded,
13 have you concluded whether or not the company is insolvent?

14 A. Based on our preliminary valuation, it appears that the
15 value of the debt exceeds the value of the assets.

16 Q. Okay.

17 MR. BRACHT: No further questions, Your Honor.

18 THE COURT: Thank you.

19 Cross --

20 MR. STROCHAK: Again, Your Honor, little late but
21 same objection. To the extent it's offered for the truth of
22 the matter asserted, we think it's inappropriate expert
23 testimony.

24 THE COURT: You know, I told my law clerks this
25 morning a story that a judge many years ago when I was

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1 practicing, I finished my examination of a witness, and the
2 opposing counsel got up and with feigned outrage complained
3 about a lot of things he had heard. And the judge said I'm not
4 an umpire calling balls and strikes, so if you want to timely
5 object when a question is asked, I'll entertain it.

6 The objection, late objection is overruled. Cross-
7 examination.

8 [Pause in proceedings.]

9 MR. STROCHAK: Your Honor, I have one further exhibit
10 to offer and bring a copy to the bench.

11 THE COURT: Okay. I've been handed what's been
12 marked for identification as Exhibit 17.

13 CROSS-EXAMINATION

14 BY MR. STROCHAK:

15 Q. For the record, Adam Strochak, Weil Gotshal for the
16 debtors. Mr. Aultz, I've handed you Debtors Exhibit 17. The
17 first page is an e-mail, and you can skip over the top half of
18 the page, which is just the forwarding information. If I could
19 direct your attention to the from and sent lines at the --
20 about two-thirds of the way down the page where it says from
21 Kurt Haras to Brian Hock [Ph.], Jeff Risius, and Jesse Aultz,
22 and it's dated August 25th, 2008.

23 Do you recall receiving an e-mail from Mr. Haras on
24 August 25th, 2008?

25 A. We receive a lot of e-mails, but I do definitely recognize

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1 this -- this attachment that came with it.

2 Q. And Mr. Haras was forwarding to you with that attachment -
3 - excuse me, was forwarding to you with that e-mail the
4 attached document which is behind the first page, which is
5 Lexington Precision Corporation Vienna facility sales forecast
6 2008 through 2012, correct?

7 A. Correct.

8 Q. This is, that is Exhibit 17, the attachment to the e-mail,
9 is backup detail relating to the Vienna facility forecast,
10 correct?

11 A. That's correct.

12 Q. And the Vienna facility, that is Vienna facility is where
13 they manufacture connector seals products, correct?

14 A. Right.

15 Q. Now, you received this package of information in late
16 August. Is that the first time that you had received it?

17 A. I believe this was the first time we received this
18 information.

19 Q. You indicated in your direct testimony that you thought
20 something was missing from this package. What information did
21 you think was missing from this detail package that existed
22 that you did not get?

23 A. I believe when we received this I sent an e-mail back to
24 Kurt I'm assuming within a day or two asking if this was what
25 we expected to receive or if there would also be more

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1 information coming that we had requested related to booked
2 business, highly likely versus prospective. And Kurt's
3 response was that's still coming and that's in addition to what
4 you received yesterday.

5 Q. When you say booked business, what does booked business
6 mean in this industry?

7 A. It could potentially be better classified as current
8 business or in production business. I believe that's the
9 category the company uses for the other divisions that we
10 received.

11 Q. So you received this booked business backup for the other
12 divisions but none for connector seals?

13 A. Correct.

14 Q. As you sit here today are you aware that there was any
15 booked business detail information for the July forecast?

16 A. Whenever we requested it we were told that it was being
17 aggregated for us so that we could use it. I don't know that
18 it was ever finished or that it existed, no.

19 Q. And you did get that level of detail with respect to the
20 updated projections that were delivered to you just a week or
21 ten days or so ago?

22 A. That's correct.

23 MR. STROCHAK:

24 MR. STROCHAK: Your Honor, just to clean the record
25 up, we would offer Exhibit 17 into evidence.

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1 MR. BRACHT: No objection, Your Honor. Just one
2 point of clarification. Does it include the detail that --

3 THE COURT: My understanding it's the whole -- it's
4 both.

5 MR. BRACHT: Both. Okay. No objection.

6 THE COURT: Okay.

7 MR. STROCHAK: That's the intention, Your Honor, the
8 e-mail and --

9 THE COURT: Yes.

10 MR. STROCHAK: -- the attachment.

11 THE COURT: Exhibit 17 is in evidence.

12 (Debtors Exhibit No. 17, Received.)

13 MR. STROCHAK: Thank you.

14 BY MR. STROCHAK:

15 Q. Let me turn you to Exhibit R, which I think you have in
16 front of you, Mr. Aultz.

17 A. Uh-huh.

18 Q. Exhibit R is your comparison of the debtors' various
19 projections that they've evolved over the last several months;
20 is that correct?

21 A. Right. We put this document together.

22 Q. And you've only looked at two business segments here, the
23 insulator segment and the medical segment, right?

24 A. In this document, yes. We have now compared the connector
25 seals now that we have it.

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1 Q. With respect to the differences, if we look for example at
2 Jasper, and let's just focus on EBIDA, you've got the July
3 number for 2008 is 84, excuse me, 8.4 million and the October
4 number for 2008 is 8.5 million. I'm rounding here. Do you
5 view that as a significant change in the projections?

6 A. No, we do not.

7 Q. And the next line over, the 2009 projection, 10 million,
8 just a hair over 10 million in July and 9.8 million, roughly,
9 in October, do you view that as a significant deviation?

10 A. No. I wouldn't view any of the years as significant
11 deviations.

12 Q. Now, when Mr. Bracht asked you a question I think you
13 indicated in sum or substance that you believe that some
14 adjustments to the projections were firmer in some respect than
15 other adjustments. Is that correct, do you believe that to be
16 true?

17 A. For some of the adjustments we were told it was newly
18 signed up or they had new information from the client and other
19 was new prospective business that was not as firm, yes.

20 Q. And is it your testimony, sir, that the downward revisions
21 are categorically firmer than the upward revisions?

22 A. For some of the items I think it goes both ways. Some of
23 the items that came out, they know they've lost the business so
24 it's no longer in the budget. Some of the items that came in
25 are now in production, and some of the items that came in now

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1 are not in production but they expect to get or they're
2 prospective. I don't think they took out anything that they
3 don't expect to lose.

4 Q. And that's an ordinary part of the projection process,
5 correct, is that, you know, some projections are firmer than
6 others, right?

7 A. Right. And that's why we're asking for the different
8 levels of confidence. That's why that was important to us was
9 because, as you just said, some items are firmer than others.

10 [Pause in proceedings.]

11 Q. With respect to Exhibit Q, your calculation of multiples.

12 A. Uh-huh.

13 Q. On what basis were those values calculated? Were they
14 based on --

15 THE COURT: Are you sure you want to go into it since
16 this is not in evidence. But if you want to, go ahead.

17 MR. STROCHAK: Well, the testimony --

18 THE COURT: I'll -- I'll --

19 MR. STROCHAK: -- was offered, Your Honor. I know
20 the document's not in evidence.

21 THE COURT: Go ahead.

22 MR. STROCHAK: I appreciate that.

23 BY MR. STROCHAK:

24 Q. Were you basing your connection -- your projections --

25 THE COURT: I just may reconsider my earlier ruling.

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1 Go ahead.

2 MR. STROCHAK: I'll stop right there, Your Honor.

3 Thank you.

4 [Pause in proceedings.]

5 BY MR. STROCHAK:

6 Q. Turn with me to Exhibit O, if you would.

7 A. The budget to actual?

8 Q. Yes, exactly. You've calculated 18 percent off on a
9 consolidated basis over the three-month period, and that's
10 cumulative for the three months. And that totals \$545,000; is
11 that correct?

12 A. That's correct.

13 Q. What makes up the bulk of the \$545,000? That is what
14 business segments make up the bulk of that?

15 A. The largest segment is connector seals, and I believe the
16 second largest segment is metals.

17 Q. Medical is -- if we turn to page 2 of Exhibit O, is
18 \$59,000 over the three-month period?

19 A. That's correct.

20 Q. Is it your view, sir, that \$59,000 off on projections for
21 this business with sales of roughly \$4.2 million over the
22 three-month period is a material deviation from the
23 projections?

24 A. I don't think that 59,000 over three months is necessarily
25 material. I guess the issue that we -- that we've considered

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1 is if that trends continues through the -- through the year, 6
2 percent could be material by the end of the year. So we don't
3 have the detail on September. I think it was offered earlier.
4 All we have is the consolidated number.

5 Q. Mr. Aultz, have you dived into the numbers to see exactly
6 where the company is missing on the medical projection in
7 particular? Where does that \$59,000 come from? Where's that
8 level of granularity that you haven't looked into?

9 A. Well, we don't have as much detail on the actual as we do
10 the budget actually, but it's not a sales level. As you can
11 see, medical is hitting its sales numbers or approximately 1
12 percent above budget on sales. So it appears to be a cost
13 issue given that margin is not where it is expected to be.

14 Q. You don't have a level of detail to determine, for
15 example, what particular parts might be at issue or what might
16 be the reasons why costs in those parts might be greater than
17 anticipated?

18 A. We don't receive part-by-part financial statements for the
19 actuals.

20 [Pause in proceedings.]

21 Q. You indicated before that you had provided preliminary
22 valuation information to the debtors. When was that done?
23 When did you complete your valuation work, at least to the
24 extent that it's been done so far?

25 A. I believe the preliminary indication was sent out on

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1 Friday.

2 Q. This past Friday?

3 A. Yeah. Five days ago, yeah.

4 Q. And that was discussed at the meeting that you and I both
5 attended yesterday, correct?

6 A. Correct.

7 Q. Based on, you know, your perceptions from working with the
8 committee and participating in the negotiations with the
9 debtor, do you believe that the committee and the debtors have
10 reached an impasse where no further progress could possibly be
11 made on valuation?

12 A. I don't believe so.

13 Q. Mr. Aultz, at this point does SRR have all the information
14 that it's requested from the debtors? Is there anything
15 outstanding?

16 A. I don't believe there's anything outstanding currently
17 with the receipt of the connector seals information.

18 Q. Is there anything else you need? As you sit here today do
19 you anticipate that you need any additional detail on anything?

20 A. I believe from an enterprise value perspective we have the
21 information we requested. Obviously this is a fluid situation,
22 and issues related to cash balances and reorganization fees are
23 changing. The original projection was an emergence on October
24 31st in the Campbell report, which obviously is not going to
25 happen. So some of the add backs and the deductions from

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1 enterprise value are not set in stone. So that is information
2 that we've had a recent call with -- with Dennis Wilhouse to
3 get his most recent projections. And that's something that
4 will continue to change, I would imagine, throughout this
5 process. But I believe from the enterprise value perspective
6 we have the information we've requested.

7 MR. STROCHAK: Thank you, Your Honor. I have no
8 further questions.

9 THE COURT: Thank you.

10 MR. STROCHAK: Thank you.

11 THE COURT: Redirect?

12 MR. BRACHT: Yes, Your Honor. Just a few.

13 REDIRECT EXAMINATION

14 BY MR. BRACHT:

15 Q. Exhibit H, Mr. Aultz. At the top of Exhibit H there's a
16 message from Mr. Kurt Haras at W. Y. Campbell; is that correct?

17 A. That's correct.

18 Q. And this is what date?

19 A. August 26th.

20 Q. And that would be a day after the previous Exhibit 17 that
21 Mr. Strochak asked you about?

22 A. That's correct.

23 Q. Okay. And what does the message from Mr. Haras say?

24 A. It says that "per my voice mail the information described
25 in item 1, which is below, which details the information we

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1 were looking for on connector seals broken out by level of
2 confidence, is being aggregated and put into a format that we
3 can understand, which is in addition to the detail provided
4 yesterday," and they will pass it along as soon as it's
5 available.

6 Q. All right. And the addition -- in addition to material
7 that was provided yesterday, was that the material that was
8 part of Exhibit 17?

9 A. That's correct.

10 Q. Okay. And the material that Mr. Haras says in August the
11 25th that they're aggregating and will provide to you as soon
12 as he gets it, that's the information that you got on October
13 the 23rd?

14 A. October 20th.

15 Q. October 20th. Excuse me. One question about needed
16 information. You were careful to say from an enterprise value
17 point of view that you have the information that you need.
18 What about with respect to the noncore assets, do you have all
19 the information you need with respect to the noncore assets?

20 A. I think we're still discussing that with the company to
21 get the best information. We have -- I don't have any specific
22 request today. As we work through that, that may require
23 further clarification. And I think they're aware of that,
24 we've had that discussion with them in the last week.

25 Q. Okay. So there's still some to come with respect to the

1 noncore assets?

2 A. Eventually.

3 THE COURT: That's not what he said.

4 THE WITNESS: There could be more to come.

5 MR. BRACHT: I'm sorry, Your Honor.

6 BY MR. BRACHT:

7 Q. Could be more to come.

8 A. Yes.

9 Q. Okay. Thank you.

10 MR. BRACHT: That's all I have.

11 THE COURT: Thank you. Any further questions, Mr.
12 Strochak?

13 MR. STROCHAK: No further questions, Your Honor.

14 Thank you.

15 THE COURT: All right. You're excused, Mr. Aultz.

16 THE WITNESS: Thank you.

17 THE COURT: Committee rests?

18 MR. BRACHT: We rest, Your Honor.

19 THE COURT: Okay. Any rebuttal case?

20 MR. STROCHAK: No, Your Honor. We're through.

21 THE COURT: All right. Both sides rest?

22 MR. BRACHT: Yes, Your Honor.

23 MR. STROCHAK: Yes.

24 THE COURT: Okay. All right. I'll hear argument.

25 [Pause in proceedings.]

1 MR. STROCHAK: Your Honor, let me start --

2 THE COURT: Before you do that.

3 Are you offering Exhibit H?

4 MR. BRACHT: Yes, Your Honor. Thank you. Sorry.

5 THE COURT: Any objection?

6 MR. STROCHAK: I just need to pull it out. I've just
7 forgotten what it was. No objection, Your Honor.

8 THE COURT: All right. Exhibit H is in evidence.

9 (Committee Exhibit No. H, Received.)

10 THE COURT: I'm sorry, Mr. Strochak. Go ahead.

11 MR. STROCHAK: Thank you. Your Honor, we're here
12 seeking extension of exclusivity to get us through the next
13 phase of this case, the plan process. We have a plan on file,
14 we have a disclosure statement on file. We have scheduled a
15 hearing on the disclosure statement for the third week of
16 November, November 24th I believe it is. We are in a position
17 now to move the case forward toward confirmation of a plan of
18 reorganization.

19 THE COURT: Are you going to have to amend the
20 disclosure statement before the hearing?

21 MR. STROCHAK: There will be amendments, Your Honor.
22 Our intention is to go through and do whatever amendments are
23 necessary to the disclosure statement. You know, we're still
24 cautiously optimistic that we're going to have -- continue
25 negotiations and maybe we can get to a resolution. There would

1 be an amendment to deal with that if necessary.

2 THE COURT: Okay. Have you discussed the contents of
3 the disclosure statement with Mr. Silverstein? Have you
4 received I mean comments on the disclosure statement at this
5 point?

6 MR. STROCHAK: I don't believe we've received
7 anything from the committee specific --

8 THE COURT: Have you asked them for it at this point
9 or not?

10 MR. STROCHAK: Pardon me?

11 THE COURT: Have you asked them for it?

12 MR. STROCHAK: I don't think we made a specific
13 request saying, you know, do you have any problems with the
14 disclosure statement. I don't think we specifically asked them
15 to give us comments, but we're certainly --

16 THE COURT: Okay.

17 MR. STROCHAK: -- welcome to take them. Working
18 through the Adelphia factors or the factors outlined by the
19 Court in the Adelphia opinion, Your Honor, size and complexity
20 of the case. It's not an enormous case. It's also not a
21 terribly simple case. It's required a lot of attention from
22 the company in terms of information demands. The committee has
23 probed very deep into the company's finances down to the
24 purchase order level in many respects, and that's taken time to
25 get us here.

1 The company has tried its level best to provide the
2 information that's been requested, the information that it had
3 at all times. Could we have done it a little bit faster in
4 some cases? I'm sure there are instances when it could have
5 moved a little bit faster but just due to circumstances it
6 didn't. But we're here, the committee has the information it's
7 requested, it has the information that it needs, and we're
8 hopeful that the plan process can move forward from that basis.

9 The committee in this case, you know, made a choice.
10 They made a choice in terms of how they wished to proceed with
11 negotiations. And they were more comfortable waiting until
12 they had all the information, until they had all the updated
13 forecasts before sitting down and starting to talk about
14 valuation and negotiation of the plan. That's okay. That was
15 their decision. I'm sure they had plenty of good reasons for
16 wanting to proceed that way. And we're a little bit frustrated
17 with it at times. We would have liked to start a little bit
18 earlier. That's not to say that I'm talking dramatically
19 earlier. I'm talking, you know, the end of September rather
20 than the second week in October. So we're not talking about a
21 dramatic difference here. But that's the way the case has
22 proceeded.

23 I think we've demonstrated good faith progress toward
24 a reorganization in this case, Your Honor, as demonstrated by
25 the documents we filed with the Court, by the information

1 exchange, by our continuing to work with -- to try and resolve
2 planned treatment for the asbestos claimants.

3 THE COURT: Let me ask you this, Mr. Strochak. In my
4 July 31, 2008 order granting your motion to extend exclusivity,
5 at page 6 I said, "Based on the testimony during the hearing,
6 the Court believes that the parties should be in a position to
7 undertake serious plan negotiations no later than early
8 September 2008." So tell me what it is that kept that from
9 happening.

10 MR. STROCHAK: I think we were off by about a month
11 what we anticipated as we were -- when we were here in July,
12 Your Honor. I think that delay was accounted for in part by
13 the time it took us to prepare the valuation report, which you
14 have as Debtors Exhibit --

15 THE COURT: 3.

16 MR. STROCHAK: -- 3, I believe. That took longer
17 than we had hoped, and that was a conscious decision on our
18 part. We felt that we would advance the process most by
19 putting forward a very well-developed valuation report,
20 something that was very close to a final report of a type that
21 we would use almost as a Rule 26 type document in the case. So
22 while we put summary valuation information in the disclosure
23 statement, which was filed on August 8th and that was available
24 to the committee then, we took a step back at that point and
25 said, well, what makes sense here, should we give the committee

1 some summary schedules and use that as a framework for
2 discussion of valuation and should we take the time that we
3 need to prepare a more complete report, and we opted for the
4 latter.

5 THE COURT: Remind me when the debtors provided the
6 committee and its advisors with the Campbell valuation report.

7 MR. STROCHAK: I believe it was the third week in
8 September, Your Honor. I think it was September 19th. It may
9 be listed on Exhibit 4. It is. It's listed on Exhibit 4, and
10 Exhibit 4 indicates that the Campbell draft valuation report
11 was provided to the committee on September 19th. In fairness,
12 that was a Friday so I really wouldn't expect them to look at
13 it until the following week.

14 I really think that that largely accounts for the
15 delay off of what we anticipated in July. The other factor
16 really is what's been going on in the industry, Your Honor. I
17 mean we all recognize that the OEM segment has been subject to
18 very, you know, significant changes during the period. And the
19 debtors took a step back and realized that they were going to
20 have to look at their forecasts again, and that process took
21 some time. And I think as the Court heard testimony, it really
22 wasn't until the third week in October that we were able to
23 complete revised forecasts for that and provide those to the
24 committee.

25 THE COURT: But the -- how does the deterioration of

1 the OEM business affect your valuation?

2 MR. STROCHAK: It's the debtors' position that it
3 really doesn't move the needle on valuation --

4 THE COURT: But that's what I thought I heard
5 [indiscernible].

6 MR. STROCHAK: Exactly, Your Honor. And that was our
7 position, we made that clear in correspondence to the
8 committee. We explained why we felt that was the case, and
9 we've given Your Honor some of that correspondence in the
10 exhibits, which I don't have the exact number but I can -- if I
11 take a moment I can find you it. But, you know, we took the
12 position that we don't think it's really going to change much
13 on connector seals. The valuation that Campbell did on
14 connector seals was -- although it wasn't a wind-down value, it
15 was very close to the value you would get if you did a wind-
16 down value. So we explained to the committee that we don't
17 really think the change in the connector seals forecast is
18 going to move the needle overall on valuation because we're
19 already valuing it at pretty much what it would be worth if we
20 just, you know, sold it off.

21 THE COURT: So what you're telling me is that -- you
22 make the point, both in your reply and in some of the
23 testimony, about what you can read about in the paper every
24 day, the OEM business, not only for Lexington but everybody
25 else in the auto industry, has substantially declined. But

1 what I'm hearing you say now is that doesn't affect your
2 valuation because you essentially put that in as the winding up
3 or liquidation value.

4 MR. STROCHAK: For the most part that's correct, Your
5 Honor. That is our view of it at this point. Now, you know,
6 it doesn't -- the business does have prospects. I mean it's
7 not without prospects, and I think Mr. Lubin testified -- I
8 can't remember if it was Mr. Lubin or Mr. Wilhouse but one of
9 them testified that you have the company's customers,
10 Lexington's customers are operating at much reduced
11 inventories. So there is a possibility for an uptick there.
12 At some point they will need to replenish those inventories.

13 THE COURT: Hopefully.

14 MR. STROCHAK: So there are prospects there. If you
15 look at the forecasts and use a discounted cash flow-type
16 valuation forward, you might get a larger number than a wind-
17 down value for connector seals. But where we are now in
18 Campbell's draft valuation is that it's very close to a wind-
19 down value. So, you know, we told the committee that was our
20 view of the valuation.

21 THE COURT: When you say very close, how much -- did
22 they -- I didn't get to read the report yet. Do they show what
23 going concern versus liquidation value would be?

24 MR. STROCHAK: I don't think Campbell formally looked
25 at it as a liquidation value-type business. Our assessment

1 was, you know, Campbell came up with a number in their
2 projections, and it would take me a moment or two to find it,
3 but, you know, they came up with a number and the debtors'
4 assessment is that number is fairly close to what an orderly
5 wind down would be. No, I don't mean a liquidation, I don't
6 mean, you know, appoint a Chapter 7 trustee tomorrow but more
7 of an orderly wind down of the business.

8 And, you know, we expressed that view to the
9 committee, and the committee decided that it really wanted to
10 wait until it had the revised connector seals forecast in order
11 to really sit down at the table and start talking. You know,
12 that was their decision and we understood it. We think we
13 could have met perhaps a little bit sooner but that's the way
14 it shook out, and I think that was part of -- accounted for
15 part of the delay.

16 THE COURT: So there have been two meetings with the
17 committee since September, is that -- am I correct in that?
18 Did I hear that?

19 MR. STROCHAK: Well, I think there were some other
20 communications going on. There were --

21 THE COURT: No, meetings.

22 MR. STROCHAK: -- other communications.

23 THE COURT: Meetings.

24 MR. STROCHAK: But formal meetings with the committee
25 --

1 THE COURT: Two?

2 MR. STROCHAK: -- we had two. We had one yesterday
3 for several hours, three, four hours I believe it went, and
4 then we had one -- I'm just drawing a blank on the date. I
5 want to say October 13th but I may be wrong on the date. It
6 was a couple weeks ago at this point. Again, you know, a
7 couple hour meeting. And, you know, I think, as it's been
8 characterized in the hearing, we're still far apart on value
9 and we don't have a deal, we don't have anything close to a
10 deal.

11 I think yesterday for the first time we felt, at
12 least on our side we felt like we were at least making progress
13 in terms of talking about a structure. That's where things
14 stand right now. And as the Court heard, I don't think either
15 side believes that we're at an impasse where, you know, further
16 negotiations would be futile. In fact, you know, my personal
17 view is that the groundwork has been laid --

18 THE COURT: I don't -- let's leave your personal view
19 out.

20 MR. STROCHAK: -- to move forward, but that's not
21 evidence and -- the company is paying its bills as they come
22 due. That's not an issue here. We certainly have already
23 filed the plan, so that factor is satisfied. There has been
24 progress in negotiations with creditors. Certainly not
25 dramatic progress. I can't point to anything with the

1 committee that's resolved. We do think that we've made
2 progress with the asbestos claimants in this case.

3 The time elapsed in this case has been relatively
4 modest. The case is moving along toward a schedule that we
5 hope will get us to confirmation and consummation of the plan
6 by the end of February, in accordance with an agreement in the
7 cash collateral order. That would have the whole case wrapped
8 up in ten months, which we believe is a reasonable time period
9 for a Chapter 11 case.

10 We certainly are not using the Chapter 11 process to
11 pressure creditors into meeting our demands. We have a dispute
12 about value. We have a view as to what the value is. The
13 creditors committee has its view as to what value is. We're
14 not using the Chapter 11 process as a lever. We think that it
15 is an appropriate use of the Chapter 11 process to continue to
16 maintain control of the business, continue to demonstrate to
17 customers, vendors, employees that this company has prospects
18 of reorganizing.

19 There is an unresolved contingency of course, and
20 that is the exit financing. We've certainly made progress on
21 exit financing. We do not have a firm commitment letter in
22 hand. We think that we've laid the groundwork to move forward
23 toward obtaining that. But that is of course an unresolved
24 contingency in the case that we will need to resolve in order
25 to get a plan concerned.

1 THE COURT: You and a lot of other folks at this
2 point.

3 MR. STROCHAK: We are certainly not alone in that
4 respect, Your Honor. And in that respect we are pleased that
5 we have a good relationship with a prospective exit lender at
6 this point who has not told us no. So we view that as a
7 positive development and not a negative one. The creditors
8 committee has characterized it as essentially lack of an
9 alternate option and as a not positive development, but we
10 really see the glass as half full there rather than half empty
11 in this economy and in these credit markets.

12 THE COURT: I didn't hear evidence on this, but --
13 well, never mind, I didn't hear evidence. Go ahead.

14 MR. STROCHAK: I'm sorry, Your Honor, did --

15 THE COURT: No, I was going to ask a question, then I
16 decided it's not in the record so I'm not going to ask it.

17 MR. STROCHAK: Let me address if I could, Your Honor,
18 some of the committee's objections, some of the arguments
19 they've asserted. They've asserted in their papers that the
20 cash collateral order put a too tight schedule on the case,
21 that the case is somehow moving too fast with that schedule in
22 place. You know, that schedule has been in place since the
23 very beginning of the case. We agreed to it because we thought
24 it was reasonable at the time. We still think it's reasonable
25 and achievable given where we are in the case. I don't think

1 it's improper in any way for us to continue exclusivity toward
2 and until that deadline under the circumstances.

3 And I'd note that to the extent the committee is
4 afraid that we will get to February and not be able to confirm
5 a plan, essentially that they will win on valuation and we
6 won't be able to confirm a plan and that that will leave them
7 in a bind, we really don't think that's the case, Your Honor.
8 Even the valuation information that they've put forward shows
9 value well over the amount of the secured debt in this case.
10 So if we get to the point in February and -- and essentially
11 and they win --

12 THE COURT: I don't -- I haven't seen evidence of
13 that so -- I mean, you're saying that what they've shown you is
14 evidence of value above the debt. But that wasn't introduced
15 in the record today so it's not proper to argue it.

16 MR. STROCHAK: Thank you, Judge. We certainly are
17 not attempting to stall the case. They seem to say in some
18 respect we're going too fast and some respect we're going too
19 slow. We certainly are not attempting to stall the case. We
20 have no intention whatsoever of stalling the case. We are
21 trying to move the case forward to completion. In this
22 economy, in this market this company does not want to hang
23 around in Chapter 11 and see what develops. We want to be out
24 of Chapter 11 so we can go out to customers and say look, we
25 fixed the problems with the capital structure, we're out of

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1 Chapter 11, give us the business that you think you can give us
2 and don't let that be a concern for you.

3 We don't think the value of the business has
4 diminished at all. Sure, there are small misses in certain
5 segments and a big miss in the OEM business, there's no doubt
6 about that. But as we've indicated, we think the OEM business,
7 the connector seals business and metals is a relatively small
8 portion of the overall value of this company. The places where
9 we think there is significant value, in the insulators business
10 and the medical business, we think are overall performing very
11 well in this environment. Sure, \$59,000. It's a rounding
12 error in our view, Your Honor. It's not significant. Maybe
13 September won't look terrific but it's not going to be off by
14 dramatic, dramatic numbers. And those businesses in the
15 debtors' view, and I think the Court has heard evidence, that
16 those are performing relatively well under the circumstances in
17 a very difficult environment overall in the economy, certainly.

18 The committee argues that we have no reasonable
19 prospect of getting exit financing, and I think we've
20 demonstrated through evidence that we do have a reasonable
21 prospect. Is it a sure bet? Certainly not, but we do have a
22 reasonable prospect. We are in continued negotiations with a
23 prospective exit lender.

24 The back and forth, Your Honor, has heard over the
25 projections and the changes to the projections, and we do feel,

1 Your Honor, like we're between a rock and a hard place on that.
2 Had we taken the view that, you know, our July projections were
3 exactly right and we weren't going to change anything, had we
4 ignored the committee's and their financial adviser's comments
5 on the projections, we certainly would have been criticized for
6 standing behind projections that in their view weren't
7 feasible. We listened, we took things into account. They
8 pointed out some things that we agreed with. We went back and
9 looked further at a lot of different things. The projections
10 have been revised. Connector seals obviously has been revised
11 downward. The other businesses are largely flat in terms of
12 the revision. Some ups, some downs. They come out about the
13 same as where they were before. I think overall the process
14 has demonstrated credibility in the projections, not
15 incredibility in the projections. And with respect to the OEM
16 segment, you know, there aren't a whole lot of people out there
17 who foresaw what has happened in August and September and
18 October in those markets. I'm sure there are some people who
19 did. But certainly nobody in July was sitting around saying
20 the world is ending. I think there was optimism in July that
21 things would either stabilize or get better.

22 The argument has been made, Your Honor, that the
23 debtors are acting simply to preserve value for equity. We're
24 preserving value for everybody. Whatever value there is, we're
25 trying to preserve it for whoever gets it at the end of this

1 case in terms of the resolution of the dispute over value if we
2 can't do it consensually.

3 It's a very difficult thing, Your Honor, to be able
4 to prove what would happen if we don't get an extension of
5 exclusivity. You know, we're very much in the position of
6 being the doomsayers that all sorts of horrible things could
7 happen. Mr. Lubin has given the Court his best appraisal of
8 where things stand. This is a business that is very sensitive
9 to concerns about its capital structure, its management, its
10 ability to see its way through the Chapter 11 process in a
11 coherent, organized fashion and not have disruption to the
12 business. Customers definitely are sensitive to that and of
13 course has heard a little bit about that.

14 I don't want to stand here and behave like Chicken
15 Little and say the world is going to end if exclusivity isn't
16 extended. But it is our reasoned judgment that this company
17 will have a harder time in the marketplace, that value will not
18 be enhanced, that it will be reduced if the perception among
19 customers, among vendors, among employees is that this
20 management is going to be tossed out, that this reorganization
21 process is going to devolve into a free-for-all that could end
22 very abruptly in February with no satisfactory result from
23 their perspective.

24 Your Honor, I believe that's all I have.

25 THE COURT: Thank you, Mr. Strochak.

1 MR. STROCHAK: If the Court has any questions. Thank
2 you.

3 THE COURT: Thank you.

4 MR. SILVERSTEIN: Good afternoon, Your Honor. Paul
5 Silverstein for the creditors committee.

6 THE COURT: Good afternoon.

7 MR. SILVERSTEIN: I'll be extremely brief. We are
8 again discussing whether the debtors can demonstrate sufficient
9 cause to extend exclusivity. Your Honor, nothing much has
10 changed since we were last here in terms of progress in these
11 Chapter 11 cases other than a further deterioration of the
12 debtors' businesses. The parties have twice met, most recently
13 yesterday. There's no progress to report. We'll obviously
14 continue to negotiate because that's what we have to do and
15 that's we do do. The continuation of exclusivity doesn't --

16 THE COURT: What was the evidence that I heard today
17 that no progress has been made? The evidence was not that
18 there was great progress but the evidence I heard from the
19 debtor was there was progress. Mr. Aultz testified that in his
20 view they're not at an impasse. The debtors' witnesses
21 certainly testified they're not at an impasse. What's the
22 evidence that supports your statement that there's no progress?

23 MR. SILVERSTEIN: First, I don't think Mr. Aultz's is
24 -- what he thinks of that progress is particularly --

25 THE COURT: He -- his testimony about was whether --

1 the question was whether there was an impasse.

2 MR. SILVERSTEIN: Correct. I don't think his --

3 THE COURT: And his --

4 MR. SILVERSTEIN: -- personal opinion as to whether
5 there's an impasse is particularly relevant because he's not
6 the committee, he's not negotiating on behalf of the committee.
7 He's the committee's --

8 THE COURT: You had him present at a meeting because
9 he's one of the committee's advisers.

10 MR. SILVERSTEIN: Because he's one of our valuation
11 people, yes, that's right, Your Honor. And what I'm telling
12 Your Honor is that there's --

13 THE COURT: All right. You want me to exclude his
14 testimony?

15 MR. SILVERSTEIN: No, I don't want you to -- I want
16 you to take his testimony for it's worth.

17 THE COURT: So what evidence -- that was the only
18 evidence you offered was his testimony. And I heard some
19 cross-examination but I didn't hear anything that supports your
20 statement that there's been no progress.

21 MR. SILVERSTEIN: The --

22 THE COURT: You can make the argument but I want to
23 hear evidence.

24 MR. SILVERSTEIN: It's not an argument, it's a
25 representation by me to Your Honor that --

1 THE COURT: Don't give me representation. This is a
2 contested matter --

3 MR. SILVERSTEIN: Yes.

4 THE COURT: -- with an evidentiary hearing. I reach
5 a decision based on the evidence before me. If you wanted to
6 introduce evidence that there has been no progress, you had to
7 put on a witness to establish it. The witnesses I heard
8 testified that there has been some, not a lot, there's been
9 some progress.

10 MR. SILVERSTEIN: Well, I think what you heard was
11 that the debtors testified that they were hopeful because the
12 parties are still talking to each other and the parties --

13 THE COURT: I heard specifically that -- I'm not sure
14 exactly what it means but I heard testimony that, based on the
15 meeting yesterday, apparently there's a structure. I'm not
16 sure what the structure means but I also didn't hear cross-
17 examination trying to tear that apart either. So --

18 MR. SILVERSTEIN: Correct, Your Honor.

19 THE COURT: -- I understand your -- you can say
20 whatever you want as argument, but I base a decision on
21 evidence. And the only evidence I heard today was there has
22 been some progress, and I do credit Mr. Aultz's testimony that
23 there's no impasse.

24 MR. SILVERSTEIN: And again, Your Honor, I'm
25 representing to Your Honor that --

1 THE COURT: I don't --

2 MR. SILVERSTEIN: -- there's no impasse as such
3 because we continue to talk, as we are obligated to, because we
4 are fiduciaries to the creditors. And we will continue to
5 talk.

6 THE COURT: Okay.

7 MR. SILVERSTEIN: Because that's the responsible
8 thing to do. But I'm representing to the Court that at this
9 time there has been no progress in negotiations. Your Honor
10 could take that --

11 THE COURT: You and I --

12 MR. SILVERSTEIN: -- for whatever it's worth.

13 THE COURT: You and I don't seem to be communicating,
14 Mr. Silverstein. This is a contested matter at an evidentiary
15 hearing. I have a motion pending before me that I have to
16 decide based on the evidence, not on Mr. Strochak's
17 representations or your representations.

18 MR. SILVERSTEIN: Correct. I don't think you have
19 any evidence with respect to whether or not there is an impasse
20 or not. I think that --

21 THE COURT: Well, I do. I have testimony, unrebutted
22 testimony there's no impasse. Both sides' witnesses have
23 testified there's no impasse. And you're telling me I can't
24 credit that testimony?

25 MR. SILVERSTEIN: What I'm saying, Your Honor, is

1 that that testimony is fundamentally meaningless in terms of --

2 THE COURT: All right, go on to your next point.

3 MR. SILVERSTEIN: -- whether or not there is progress
4 or no progress. And I think if you really listen or read, you
5 know, what Mr. Strochak, what the other witnesses for the
6 debtor said, I think they said that nothing's really happened
7 but we're hopeful I think is what they said. So I don't think
8 they really gave -- there was any evidence in the record that
9 there's anything other than an impasse but they said that
10 they're hopeful. And again that's their personal views as to
11 their hopes and aspirations and whatever, but you don't have
12 evidence in this record with respect to any progress in
13 negotiations. I think -- and again I don't have a transcript,
14 you don't have a transcript, we have our notes, but I think
15 that's pretty clear to me. My point, Your Honor, was that
16 there has been no material progress in negotiation
17 notwithstanding anyone's hopes about that and anyone's desires
18 about that. And --

19 THE COURT: I'm listening to you.

20 MR. SILVERSTEIN: I'm just going to let you --

21 THE COURT: No, go ahead. I'm listening to you.

22 MR. SILVERSTEIN: Thanks. Exclusivity and a
23 continuation of exclusivity doesn't help a potential for
24 progress. Because what it does is that it fosters an unhealthy
25 imbalance in negotiations. Your Honor, the -- what has

1 changed, Your Honor, and what should concern Your Honor and
2 what concerns the committee is that with each day the value of
3 the debtors' businesses declines. The debtors at every
4 opportunity state that the businesses are doing well and
5 everything is just fine. And that even though some things are
6 going down, they correspond -- they find a corresponding factor
7 to move it up so that everything's equal and everything's fine.
8 That's just not the case. And I think the testimony reflects
9 that. I think the debtors have taken certain positions with
10 respect, you know, OEM and after market. The bottom line is
11 from what I think Mister -- the SRR testimony, Mr. Aultz's
12 testimony, is that the auto sector has declined generally, and
13 there is no distinction between the two.

14 THE COURT: Well, he testified about the industry
15 generally. I heard testimony from Mr. Wilhouse and Mr. Lubin
16 that with respect to Lexington the after market business is
17 actually up. I understand Mr. Aultz testified about companies
18 in the industry generally, but he didn't testify that with
19 respect to Lexington their after market business is down.

20 MR. SILVERSTEIN: I think he testified with respect
21 to, for example, the comps that were used by W. Y. Campbell,
22 that those companies that are in the after market business,
23 their multiples have substantially declined over time.

24 THE COURT: You're -- okay.

25 MR. SILVERSTEIN: Over the last -- over the recent

1 period of time. Excuse me.

2 THE COURT: All right. Go ahead.

3 MR. SILVERSTEIN: I think that what you also heard is
4 that over the last four months the debtors' EBIDA is tracking
5 far down from budget. I think September was down 50 percent,
6 August was down 38.1 percent, July was down 12.4 percent. I
7 think you heard testimony that, again, the auto industry as a
8 whole has serious problems and is in serious decline, and,
9 again as I said before, valuation of multiples in the auto
10 parts industry, throughout the auto parts industry has
11 substantially declined.

12 THE COURT: This is not the valuation trial.

13 MR. SILVERSTEIN: I agree. I absolutely agree with
14 you, it's not the valuation trial. It's just the -- what I'm
15 trying to point out is that what's happened since we were last
16 here on exclusivity is that things have gotten worse. The
17 business has gotten worse. Despite the fact that the debtors
18 again tried to say every time something is bad, we have a
19 corresponding good event.

20 THE COURT: But what -- I heard testimony about --
21 and I'd like to hear you address it.

22 MR. SILVERSTEIN: Sure.

23 THE COURT: Is that -- again, not a valuation trial.
24 But essentially that Campbell's valuation of the connector
25 business and the metals business is close to a liquidate --

1 it's not the term they used -- close to a liquidation analysis.
2 That they have -- so that the changes, the downward changes
3 that have taken place, I must say I'll express a little
4 skepticism about it but it's not a valuation trial, but that
5 the values they placed on those segments of the business aren't
6 really adversely affected because they already put essentially
7 close to a liquidation value on them.

8 MR. SILVERSTEIN: Well --

9 THE COURT: And with respect to the medical business
10 and the insulator business, that those are -- Because they're
11 heavily dependent on the after market, are performing
12 reasonably well.

13 MR. SILVERSTEIN: I think -- Your Honor, again, I
14 agree, this is not the valuation trial. But I think what you
15 heard was that Campbell at one point had the going concern
16 valuation approach towards those businesses. But given how
17 poorly those businesses are functioning, the debtors basically
18 said okay, we'll sell them at some point in time perhaps and
19 therefore they're worth liquidation value. And by the way, we
20 won't include corporate overhead as we compile the sum of the
21 parts. And it sorts of results --

22 THE COURT: If we get to the valuation here we're
23 going to have --

24 MR. SILVERSTEIN: Sure.

25 THE COURT: -- I'm going to have some questions about

1 how they avoid the corporate overhead. But we'll --

2 MR. SILVERSTEIN: My point is --

3 THE COURT: -- that's not today's issue.

4 MR. SILVERSTEIN: -- that I think, you know, reading
5 between the lines and reading -- hearing the testimony, there's
6 a lot of result-oriented things going on.

7 THE COURT: Could you do this, Mr. Silverstein?

8 Address the Adelphia factors. When I ruled granting the first
9 extension --

10 MR. SILVERSTEIN: Right.

11 THE COURT: -- the order I entered focused -- because
12 both side, both parties had focused on it in their briefs and
13 to some extent do here. You cited Adelphia in a footnote. You
14 didn't really put as much emphasis on the Adelphia factors in
15 your objection this time but it's there. But address what the
16 evidence in the record today shows with respect to the Adelphia
17 factors on the Court's decision whether to extend exclusivity.

18 MR. SILVERSTEIN: I think one of the most significant
19 factors set forth in Adelphia is the prospects of a viable
20 plan. And one of the significant elements of that is that as
21 of this time the debtors have no exit financing. They just
22 have not. And I know they're very hopeful. And I would submit
23 to Your Honor that merely because Mr. Lubin is hopeful just
24 doesn't make it true. They talked about negotiations and
25 negotiations and negotiations. At one point they talk about a

1 spread in the inventory valuation of -- I'm probably saying the
2 wrong number -- 7, 8, \$9 million. Now they say it's a million
3 dollars. Numbers always always change. But they're nowhere
4 close to having any exit financing. And it's not a great
5 market right now --

6 THE COURT: Well, what was the evidence that supports
7 your statement that they're nowhere close?

8 MR. SILVERSTEIN: Because they have -- they don't
9 even have a revised letter of intent. That expired. That
10 doesn't -- there's no letter of intent anymore, no soft letter
11 that they had that expired.

12 THE COURT: That's certainly in evidence, that there
13 is no -- that the term for that letter of intent has now
14 passed. But the testimony I heard is that they continue to
15 have ongoing discussions with Capital One, Capital One
16 continues to do due diligence, Capital One continues to discuss
17 the differences in inventory valuation. You make the very bold
18 statement that they have no prospects for exit financing, but I
19 don't -- I didn't hear the evidence --

20 MR. SILVERSTEIN: I don't --

21 THE COURT: -- that supports your --

22 MR. SILVERSTEIN: I didn't say --

23 THE COURT: -- bold statement.

24 MR. SILVERSTEIN: -- they had -- and, again, I'm not
25 trying to make bold statements here and I didn't say they had

1 no prospects. What I'm saying is that they haven't
2 demonstrated any meaningful prospects other than their serious
3 desire to have exit financing.

4 THE COURT: So and you're -- in your view the
5 evidence about the prior letter, which wasn't binding certainly
6 on Capital One, and the continued ongoing discussions with
7 Capital One, their continued due diligence, the continued
8 efforts of the company to try and narrow valuation differences,
9 to focus on the appraisals of non-core assets. In your view
10 that all indicates no reasonable prospects of exit financing?

11 MR. SILVERSTEIN: I'll tell you what I heard, Your
12 Honor. What I heard was that Mr. Lubin testified that they
13 have now narrowed the gap, according to his testimony, on
14 inventory to a million dollars. We have a debtor where Mr.
15 Lubin made a DIP loan, okay, to the debtor. I think it was
16 Lubin and one of his associates or employees, it's million, I
17 think \$4 million DIP loan that's been drawn. If there was only
18 a million dollar gap with respect to exit financing and I were
19 Mr. Lubin, I would say to my exit lender you know what, I have
20 a \$4 million DIP loan, I will take a million dollars and I'll
21 participate my portion. That would be my logically conclusion
22 when the testimony is that there's a million dollar spread.

23 THE COURT: Well, Mr. Silverstein, this is an evi- --
24 I just had an evidentiary hearing. I mean you make all of
25 these arguments that don't bear on the record evidence before

1 me.

2 MR. SILVERSTEIN: I think it's a reasonable inference
3 to make, Your Honor, when someone says that --

4 THE COURT: So why do you --

5 MR. SILVERSTEIN: -- the hangup --

6 THE COURT: Why didn't you or Mr. Bracht cross-
7 examine more about it? I -- you're making these frankly bold,
8 potentially wild statements --

9 MR. SILVERSTEIN: I don't mean to do that.

10 THE COURT: -- that are unsupported by any record
11 evidence, which is what -- that's the basis on which I have to
12 reach a decision.

13 MR. SILVERSTEIN: And I'm not attempting or trying to
14 make a bold unsupported statement, Your Honor. I just think
15 it's a reasonable inference when someone says that there's a
16 million dollar spread for Mr. Lubin not to basically say he can
17 bridge that million dollars because he's bridged \$4 million in
18 a DIP loan. That's just my conclusion. I think that was the
19 committee's conclusion yesterday.

20 THE COURT: I didn't hear at the end of the day they
21 wouldn't do it. I mean I didn't hear any evidence one way or
22 the other about it.

23 MR. SILVERSTEIN: Correct. I didn't hear any
24 evidence one way or the other --

25 THE COURT: I mean I didn't hear that, you know --

1 MR. SILVERSTEIN: -- because when we --

2 THE COURT: -- if Capital One, the letter, which is
3 expired by its terms, was \$39,500,000, if Capital One came back
4 and said we're only willing to do \$36 million. I haven't heard
5 what the debtor would do to try and close the gap --

6 MR. SILVERSTEIN: Correct because --

7 THE COURT: -- if they needed to close the gap. But
8 I don't think I had to hear that today.

9 MR. SILVERSTEIN: I don't think you had to hear that
10 today either. I think what you did hear is that if they were
11 anywhere close, you would have heard something on that. You
12 would have heard something meaningful. What you basically
13 heard was we hope we get it and we think we're going to get it
14 but we don't got it is what you heard, for lack of better
15 words. That's what you heard. So I think Your Honor has to
16 make inferences --

17 THE COURT: And I didn't hear contrary evidence
18 offered by you.

19 MR. SILVERSTEIN: Because I don't have evidence that
20 says they're not going to get it, Your Honor. Okay? We would
21 hope that the debtor could get it. But we haven't heard that
22 the debtor is anywhere close to getting it.

23 THE COURT: Okay.

24 MR. SILVERSTEIN: And that's the problem we have. So
25 we really have two issues in particular that are troubling in

1 terms of the prospects for a reorganization here. One is the
2 continued diminution of the debt -- of the value of the
3 debtors' business; two, the continued diminution of the auto
4 sector generally, and we do not believe that Lexington
5 Precision is exempt from the deterioration in the auto parts
6 business generally. We do not believe that Lexington Precision
7 is a medical part business now. We believe Lexington Precision
8 is still in the auto parts business, which I think Mr. Lubin
9 acknowledged in his testimony.

10 So in terms of the Adelphia factors, we talked about
11 progress in negotiations with its creditors. Mr. Lubin didn't
12 say there was progress in negotiations with his creditors.
13 What Mr. Lubin said is we don't think it's dead yet, we're
14 still hopeful.

15 THE COURT: You could have called -- who from the
16 committee was present at the negotiations but it was certainly
17 within your ability to call a member of the committee to
18 testify about the negotiations. You didn't do that. The only
19 evidence I heard about the negotiations came from Mr. Lubin
20 and, contrary to what you say, I would say from Mr. Aultz on --
21 I don't want to carry that point too far --

22 MR. SILVERSTEIN: Sure.

23 THE COURT: -- I've already made that point. But I
24 understand your points on the -- they don't have reasonable
25 prospects of a viable plan. One, they don't have exit

1 financing; two, the diminution in value of the debtors'
2 business; and, three, the continued diminution of the value of
3 the auto industry. Those are your three points?

4 MR. SILVERSTEIN: Those are basically my three
5 points.

6 THE COURT: Okay.

7 MR. SILVERSTEIN: I can go through the other factors.
8 I mean, you know, the size and complexity, you know, I think
9 it's sort of irrelevant for this case because it's not a
10 particularly --

11 THE COURT: No, I'm just trying -- those -- I want to
12 make sure I have your points down, those three points.

13 MR. SILVERSTEIN: Point number two, necessity for
14 sufficient time. They've had sufficient time to negotiate a
15 plan. Three --

16 THE COURT: Let me ask you this with respect to
17 sufficient time to negotiate a plan. What is your view about
18 the constriction of the credit markets and deterioration of the
19 business climate generally with respect to the issue of
20 sufficient time to negotiate a plan? I mean this debtor is not
21 alone, they join a long list of companies who can't file for
22 Chapter 13 because they can't get DIP financing, and those who
23 are in and can't get out.

24 MR. SILVERSTEIN: I guess that's the old adage things
25 are so bad, companies can't afford to file Chapter 11.

1 THE COURT: And that seems to be the case right now.

2 MR. SILVERSTEIN: We recognize the deterioration of
3 the debtors' business. We recognize the deterioration of the
4 auto industry. The problem that we're having is that the
5 debtor doesn't so recognize, the debtor doesn't recognize that
6 its business has some real problems and that there's been a
7 diminution in its value and there's been a diminution in its
8 performance. And the problem, Your Honor, is --

9 THE COURT: Well, they recognize the diminution of
10 performance. They acknowledged it today.

11 MR. SILVERSTEIN: But --

12 THE COURT: They say they're ready to go forward with
13 the disclosure statement hearing and then plan confirmation.

14 MR. SILVERSTEIN: But what happens, Your Honor, I
15 think -- I think if you really listen, you know, listen to the
16 testimony, and I'm sure you did, what the debtors have done is
17 every time they're faced with the poor performance of the
18 company they try to make it up somewhere with, you know,
19 cutting back here or shifting here or making a between OEM and
20 after market. We --

21 THE COURT: Day one if this case, Mr. Silverstein,
22 Ms. Goldstein I think argued first day of motions. My
23 recollection is from day one the distinction between OEM and
24 after market was a point that was made day one and it's been
25 made -- this is not, you know, a recently thought of

1 distinction. I remember being told right from day one that
2 whatever the problems of the OEM business, which have only
3 gotten worse --

4 MR. SILVERSTEIN: Right.

5 THE COURT: -- the after market remains strong. It's
6 been a consistent theme of the debtor throughout. So it's not
7 -- you seem to be suggesting that they've come up with this
8 explanation to try and explain, you know, what's happened
9 since. But, I mean, I was told that from day one.

10 MR. SILVERSTEIN: I don't think you were told from
11 day one that the debtors are really no longer in the OEM
12 business, if you will.

13 THE COURT: No, no, no, absolutely. I agree with you
14 completely.

15 MR. SILVERSTEIN: And at this point where the debtors
16 are going is or going is they're saying, well, we're not really
17 in the OEM business but, you know what, we could sell that
18 business for the same amount that we valued it at as a going
19 concern. We can liquidate it and get the same results, so
20 nothing's changed. That's part of the problem. It's not
21 credible, Your Honor.

22 THE COURT: I guess if and when we get to a valuation
23 trial we'll hear about that, right?

24 MR. SILVERSTEIN: I appreciate that. But it's just
25 not credible. And our point -- and again I said I'd be brief

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1 and I'd like to be brief. Our point is that it's somewhat of a
2 game, and we're sitting here, the creditors are sitting here,
3 there's a diminution in value of the business, they don't have
4 exit financing, right? They've not shown that they're likely
5 to get it. We all hope they get it. Okay? They want to get
6 it. And it's great to believe. Okay? But we're sitting here
7 and the dynamic of the negotiation is not helped by continuing
8 exclusivity.

9 THE COURT: All right.

10 MR. SILVERSTEIN: Because it continues in a balance
11 that's, in our view, not appropriate. Thank you, Your Honor.

12 THE COURT: Thank you, Mr. Silverstein.

13 Mr. Strochak, any rebuttal? Don't feel compelled.

14 MR. STROCHAK: No, I don't think I have anything
15 further, Your Honor.

16 THE COURT: All right. I'm going to take the motion
17 to extend exclusivity under advisement and issue an opinion or
18 order in due course. There is a bridge order that maintains
19 exclusivity pending the decision. All right. Let's move on to
20 the applications. Yeah.

21 Mr. Bracht, let me return to you all the exhibits
22 that were marked for identification but were not used. I said
23 I'd do that.

24 MR. BRACHT: Your Honor, [inaudible].

25 THE COURT: No, that's okay. And I appreciate both

1 sides being very well-organized with the exhibits. It really
2 did help. All right. Let me just clear away a few things.
3 Let me just say we'll -- and, Mr. Bracht, I think you said you
4 wanted to be excused after -- if you want to stay for fees,
5 that's fine. Are you --

6 MR. BRACHT: I'm here for the long haul, Your Honor.

7 THE COURT: Okay.

8 MR. BRACHT: I'll be fine. Would it all right if I
9 stepped out for just a minute?

10 THE COURT: Oh, sure.

11 MR. BRACHT: Thank you.

12 THE COURT: At about five minutes to 4:00 I'm going
13 to take a brief recess. Because I have a conference call --

14 MR. SILVERSTEIN: Hopefully we'll be done.

15 THE COURT: -- in another -- if we're done, that's
16 great. If not, I have to take a recess then because I've got a
17 conference call in another case.

18 MR. SILVERSTEIN: Thank you, Your Honor.

19 THE COURT: Let me just leave these. Okay.

20 MR. TSENG: Your Honor, Conray Tseng for the debtors.
21 Before you are four interim fee applications, those of Weil,
22 Gotshal & Manges, which is Docket No. 412; W. Y. Campbell,
23 financial advisers to the debtors, Docket No. 397; Andrews
24 Kurth, Docket No. 396; and Stout Risius and Ross, Docket No.
25 390. We previously provided your Clerk with a new proposed

1 order with a clean and black line.

2 There are no objections currently with any of the
3 applications, though the Court previously mentioned that W. Y.
4 -- I'm sorry -- Andrews Kurth did not provide the backup for
5 the expenses. We have addressed the concerns of the United
6 States Trustee, which -- and I assume there's no further
7 objections.

8 THE COURT: No, I want to hear from Mr. Schwartzberg
9 [Ph.]. I was told before the lunch break that, based on
10 discussions with the U.S. Trustee, Weil Gotshal has reduced the
11 amount of its fee application. Is that correct?

12 MR. TSENG: That's correct.

13 THE COURT: By \$15,000?

14 MR. TSENG: That is correct.

15 THE COURT: All right. And what about with respect
16 to expenses?

17 MR. TSENG: The expenses remain the same.

18 THE COURT: Mr. Schwartzberg have anything to say on
19 the Weil Gotshal application?

20 MR. SCHWARTZBERG: Sure. Your Honor, Paul
21 Schwartzberg for the U.S. Trustee's Office. We had two
22 concerns with the time records provided by Weil Gotshal's firm.
23 One related to travel time and another one related to a project
24 category denoted actions in response to the U.S. Trustee,
25 something of that nature. I don't have it exact. Those two

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1 came up to about \$30,000. We sort of split the difference, and
2 they agreed to take \$15,000 off. I had reviewed the other
3 portions of the fee applications. I didn't see anything at
4 this point that was objectionable.

5 I did have a concern with Andrews and Kurth regarding
6 the travel time as well, and Mr. Silverstein represented to me
7 that their firm doesn't even try -- doesn't even charge for
8 travel time unless they're actually performing work while
9 traveling, which in that instance they would be permitted to
10 charge all time. So based on Mr. Silverstein's representation,
11 we had no concerns with the committee's fees.

12 I did look at the fees for both financial advisers
13 who in both instances are charging a flat fee. I just did a
14 quick hours per dollar or dollar per hour, and they came within
15 the ballpark of reasonableness. I don't remember off the top
16 of my head what they were but it wasn't anything that I found
17 objectionable. And those are both 328 applications, although
18 we do have 330 review on those.

19 So based on that and the \$15,000 reduction from Weil
20 Gotshal as well as an agreement by the professionals that I
21 thought there needed to be a holdback pending the confirmation
22 hearing, in light of the fact that there was already a plan on
23 the table, it looked like parties are moving forward towards
24 confirmation, although albeit one or two plans I don't know and
25 I don't want to presuppose whether it's going to be one or two.

1 THE COURT: Maybe the holdback should be larger if
2 they really haven't made any progress.

3 MR. SCHWARTZBERG: Yeah. But in light of all that
4 and just in terms of reaching an agreement, we agreed on a 5
5 percent holdback for this interim period.

6 THE COURT: Okay. The question -- thank you, Mr.
7 Schwartzberg.

8 If the U.S. Trustee had not raised the issue about
9 travel time, that was on my agenda. I think the \$15,000 agreed
10 reduction in fees adequately accounts for all of the time
11 charge items that the Court would otherwise have raised. For
12 future billing purposes, there were some entries by paralegals
13 that seemed excessive in time, at least for the tasks that were
14 described. As I say, I will approve the fees in the amount
15 requested as adjusted by agreement with the U.S. Trustee
16 because the specific entries that I was going to question
17 probably total less than the \$15,000. But for future
18 reference, that is an issue.

19 The other thing you ought to build into your review
20 of statements are the discrepancies when you have multiple
21 attorneys attending the same meeting and each bills a different
22 amount of time. There were five or six entries where there
23 were variations of a half to an hour with the same people.
24 Now, it may be somebody left the meeting, but you ought to --
25 you know, the entries ought to reflect -- because we actually

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1 do look at those. When three people that attend a meeting and
2 somebody bills a half hour and somebody bills an hour and a
3 half, it raises a question. So I'm comfortable -- and I really
4 raise this point for everybody's benefit for future fee
5 applications.

6 Now, with respect to the expenses. Our General Order
7 M104 paragraph 12 states that taxi travel must be justified as
8 the subway system is a good alternative. And General Order
9 M151 caps overtime meals at \$20 a person. And there were -- my
10 law clerks picked up seven meals that exceeded the guidelines
11 permissible. I'll give you your choice, okay? I mean the
12 total involved -- if I aggregate all of these amounts for the
13 expenses, it's \$577.43. If you want to accept the reduction of
14 expenses at \$577.43, I'll approve your expenses today.
15 Otherwise you'll have to wait while we do an order and it goes
16 through each of these items.

17 MR. STROCHAK: As a member of the firm, Your Honor,
18 I'm happy to accept your suggestion.

19 THE COURT: I thought you would do that.

20 MR. SILVERSTEIN: Door number one.

21 THE COURT: Okay. So the Weil Gotshal fees reduced
22 by \$15,000 and expenses as requested less \$577.43 are approved
23 on the interim basis with a 5 percent holdback on the fees, not
24 on -- 100 percent of expenses, 5 percent holdback on fees.

25 Mr. Silverstein?

1 MR. SILVERSTEIN: Yes.

2 THE COURT: What I would -- as I indicated before the
3 break, we don't have any backup for you on the expenses. Let
4 me see specifically on fees what I --

5 Now, was there an adjustment, Mr. Schwartzberg?

6 MR. SCHWARTZBERG: If -- Paul Schwartzberg, U.S.
7 Trustee Office. No, Your Honor. There was the inquiry
8 regarding travel time which I was advised that it was not even
9 being charged, so.

10 THE COURT: Okay.

11 MR. SCHWARTZBERG: I believe backup -- I don't even
12 know if I still have it anymore but I do believe I have it.

13 THE COURT: You probably got the backup and we
14 didn't.

15 MR. SCHWARTZBERG: Yeah.

16 THE COURT: But we --

17 MR. SILVERSTEIN: Yeah, I don't recall who has
18 [indiscernible]. It exists, I can tell you that, Your Honor.
19 And we will provide it. Anything stand out in your mind?

20 THE COURT: Well, here, I'll give you which door to
21 select. You sought fees of \$551,484.

22 MR. SILVERSTEIN: Yes.

23 THE COURT: The specific adjustments we made -- would
24 make, unless you want to litigate them all, are --

25 MR. SILVERSTEIN: Oh, yes, I'm sure --

1 THE COURT: -- are \$3,394.50 in fees.

2 MR. SILVERSTEIN: Can you tell me what they are so I
3 -- actually I don't want to litigate them, Your Honor, but I'm
4 curious as to what they are.

5 THE COURT: They were -- on 5/29/08 a paralegal spent
6 0.4 hours printing an order. On 6/16/08 an associate spent 7.9
7 hours of her 14.1 hours on the case reviewing documents
8 regarding procedures for professional compensation. That
9 totaled \$2,175.50. Would you like me to continue?

10 MR. SILVERSTEIN: No, don't. Sold.

11 THE COURT: Okay. I mean I've got eight items on
12 fees. They have this grand total of three -- we didn't wipe
13 them out completely, we made adjustments.

14 MR. SILVERSTEIN: I defer to Your Honor's judgment.

15 THE COURT: \$3,394.50.

16 MR. SILVERSTEIN: And I will read them more carefully
17 apparently next time.

18 THE COURT: Okay.

19 MR. SILVERSTEIN: What date was that one about
20 professional compensation?

21 THE COURT: June 16th, 2008.

22 MR. SILVERSTEIN: Thank you.

23 THE COURT: You worked this poor woman associate 14.1
24 hours on that day but 7.9 of those hours were reviewing
25 documents regarding procedures for professional compensation.

1 MR. SILVERSTEIN: I will look into that amount
2 expense.

3 THE COURT: Okay. Okay. More seriously, and I'm not
4 -- not reflected in these adjustments.

5 MR. SILVERSTEIN: Well, Your Honor, what was the
6 number so I can just write that down, three?

7 THE COURT: Yes. \$3,394.50.

8 MR. SILVERSTEIN: Thank you, Your Honor.

9 THE COURT: Okay. 92,000 -- this is not an
10 adjustment, it's an issue I'm raising. \$92,726.50 of your fee
11 application was incurred in connection with the first
12 exclusivity motion.

13 MR. SILVERSTEIN: Lot of money.

14 THE COURT: And the question that I'm raising is
15 whether -- and I recognize that I during a telephone hearing
16 determined that it was a contested matter, I gave you limited
17 discovery, and I understand it's expensive. You know, the
18 standard in the Second Circuit is whether the services are
19 necessary at the time in which the services were rendered. And
20 services are necessary if they benefit the estate. Judge
21 Bernstein's opinion In Re Keene Corp, 205 B.R. 690 and 695
22 (Bankr. S.D.N.Y. 1997). And there's nothing astounding about
23 that proposition.

24 I've not made any adjustment. And I flagged the
25 exclusivity hearing but there was also -- and actually we

1 couldn't -- you put in an objection to the debtors' application
2 to extend time to file schedules. And I have to tell you it
3 seemed like a absolute waste of time to me and a waste of money
4 of the estate. That was earlier, that was even earlier in the
5 case. I mean it's the first time. Look, Mr. Silverstein, I've
6 only been on the bench two years but I don't think I've ever
7 had anybody file a written opposition to a relatively modest
8 request to extend time to file schedules.

9 MR. SILVERSTEIN: Yeah, I think -- I'm refreshing my
10 recollection from my colleague, Mr. Levine. I think the
11 committee requested that we did that, that we do that, and I
12 think it was a very modest cost in doing that. I don't think
13 had a hearing on that.

14 THE COURT: Well, it was -- we did have a hearing.

15 MR. SILVERSTEIN: But it wasn't just for that, I
16 think it was --

17 THE COURT: No, we didn't just do that.

18 MR. SILVERSTEIN: -- on account with other matters.
19 But I --

20 THE COURT: My point is this. Early in this case it
21 seemed that you objected to everything the debtor proposed to
22 do. And at one hearing I thought you more or less said that,
23 you know, your theme and theory was that the debtor was wasting
24 time, that this was -- they had -- they're -- you know, the
25 pre-petition negotiations didn't get anywhere, all they're

1 doing is proposing the same thing. And then everything you
2 did, you objected to everything the debtor proposed, even as
3 simple as a motion to extend time to file schedules. I mean
4 this may not be the biggest case in the world but it's still a
5 relatively complicated case. I'm just telling you that I'm
6 going to be mindful reviewing fee applications in the future
7 whether the services performed viewed from the time when they
8 were done benefitted the estate. And if they didn't, they're
9 not going to get compensated. Okay? Now, with respect to your
10 expenses.

11 MR. SILVERSTEIN: Yes.

12 THE COURT: Submit the detail. I would ask you
13 before you submit it, the expenses you were seeking of
14 \$21,817.18.

15 MR. SILVERSTEIN: Yes.

16 THE COURT: Please review them carefully.

17 MR. SILVERSTEIN: Yeah, we will.

18 THE COURT: If --

19 MR. SILVERSTEIN: If I find something that --

20 THE COURT: Yeah. I mean I do -- this issue -- I
21 mean we haven't revised the guidelines on overtime meals for a
22 very long time. But, you know, if people are working hard,
23 it's hard to actually eat something for more than \$20. But I
24 do regularly enforce it, okay? So if -- submit the backup. If
25 you adjust the amount, so indicate and what you've reduced, and

1 I'll act on it promptly.

2 MR. SILVERSTEIN: Certainly.

3 THE COURT: Okay?

4 MR. SILVERSTEIN: Thank you, Your Honor.

5 THE COURT: All right. Thank you.

6 Okay, we had the SRR fee application seeking fees of
7 \$180,645.16.

8 MR. SILVERSTEIN: And we have the six --

9 THE COURT: And expenses of \$11,013.06.

10 MR. SILVERSTEIN: And we have the 16 cents
11 [inaudible]. And that's a fixed monthly fee, as I recall?

12 THE COURT: It is. \$50,000 fees for each of June and
13 July, May fee was pro rata.

14 MR. SILVERSTEIN: Yes.

15 THE COURT: SRR did not submit any supporting
16 documents or schedules for the expenses.

17 MR. SILVERSTEIN: I think the expenses were also
18 capped, and they will submit them, Your Honor.

19 THE COURT: So when I get -- and actually with
20 respect to your fees and expenses I'm going to sign one order
21 that includes -- so the faster you get the backup --

22 MR. SILVERSTEIN: I'm not sure W. Y. Campbell did
23 either, but --

24 THE COURT: We'll get --

25 MR. SILVERSTEIN: -- debtors would know that better.

1 THE COURT: We'll get -- we haven't -- we'll get to
2 that. So with respect to SRR their fees will be approved, the
3 expenses will be reviewed. I ask you review them again
4 yourself and make sure that they meet our, you know,
5 appropriate guidelines. You'll both submit an order that
6 includes both fees and expenses. When I've had a chance to
7 review the expenses I'll act on it. So I'm indicating I'm
8 going to approve the fees for both your firm and for SRR but
9 it's also pending the review and getting the backup.

10 MR. SILVERSTEIN: Certainly, Your Honor.

11 THE COURT: Thank you.

12 MR. SILVERSTEIN: Thank you.

13 THE COURT: All right. W. Y. Campbell seeks 200,000
14 in fees and \$13,777.58 in expenses. And W. Y. Campbell
15 submitted invoices for their expenses.

16 MR. STROCHAK: Yes, Your Honor.

17 THE COURT: With respect to the W. Y. Campbell
18 expense requests there was one meal that exceeds the \$20
19 guideline. It was in the amount of \$41.59. It will be reduced
20 by \$21.59. So their request for fees and expenses less \$21.59
21 will be approved.

22 MR. STROCHAK: Thank you, Your Honor.

23 THE COURT: Okay. Anything else for today?

24 MR. STROCHAK: I'd just like to make one minor note
25 on the order.

1 THE COURT: Okay.

2 MR. STROCHAK: The committee has requested and the
3 debtors have no objection to including the language that the
4 fees are allowed pursuant to Section 331 of the Bankruptcy Code
5 and are subject to final approval under Section 330 of the
6 Bankruptcy Code.

7 THE COURT: Absolutely.

8 MR. SILVERSTEIN: And in the context of that, context
9 of that, Your Honor, is whereas that I think Capital Source,
10 the pre-petition lender, had asked Andrews Kurth to clarify
11 that and we said of course. And there's some stipulation that
12 might have been uploaded, I'm not sure, but it says the same --
13 it's the same effect.

14 THE COURT: That's fine. All right. Do we have --
15 Mr. Schwartzberg, do we have another omnibus motion day
16 scheduled at this point?

17 MR. TSENG: Your Honor, the next -- Conray Tseng for
18 the debtors. The next omnibus hearing date will be the 24th of
19 November, which is a debtors disclosure statement hearing.

20 THE COURT: Okay. I have just a couple of minutes.
21 What are you -- let's go off. Let's go off the record. We're
22 off the record.

23 (Proceedings ended at 3:54 p.m.)

24 * * * * *

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1 I certify that the foregoing is a court transcript from an
2 electronic sound recording of the proceedings in the above-
3 entitled matter.

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6 Sally Reidy

7 Dated: October 31, 2008

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